



September 18, 2024

VIA ELECTRONIC FILING

The Honorable Debbie-Anne Reese, Acting Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, DC 20426

Re: *Revisions to ISO New England Inc. Transmission, Markets, and Services Tariff to Update the FCM Delivery Financial Assurance Calculation in the Financial Assurance Policy for Participants with Inadequate Corporate Liquidity; Docket No. ER24-____-000*

Dear Acting Secretary Reese:

Pursuant to Section 205 of the Federal Power Act,¹ ISO New England Inc. (the “ISO” or “ISO-NE”),² hereby submits proposed revisions to the ISO New England Inc. Transmission, Markets, and Services Tariff (“Tariff”).³ As more fully described in Sections III and IV of this transmittal letter, the Tariff revisions proposed in this filing amend the financial assurance requirements in the ISO New England Financial Assurance Policy (“FAP”)⁴ for participants that do not have adequate corporate liquidity relative to potential obligations that may be incurred under the pay for performance (“PFP”) construct of ISO-NE’s Forward Capacity Market (“FCM”). Specifically, the revisions provide that, beginning with the 2025 - 2026 Capacity Commitment Period, the ISO will perform a corporate liquidity assessment on each FCM participant holding a Capacity Supply Obligation (“CSO”) (or its guarantor, if such guarantor is guaranteeing the

¹ 16 U.S.C. § 824d (2006 and Supp. II 2009).

² Under New England’s Regional Transmission Organization arrangements, the rights to make this filing of revisions to the Tariff under section 205 of the FPA belong to the ISO.

³ Capitalized terms used but not defined in this filing are intended to have the meaning given to such terms in the ISO New England Inc. Transmission, Markets and Services Tariff (“Tariff”). Section II of the Tariff is the Open Access Transmission Tariff (“OATT”).

⁴ The Financial Assurance Policy is Exhibit IA to Section I of the Tariff.

payment of PFP penalties),⁵ to determine its ability to pay potential penalty payment obligations⁶ associated with its CSO within the applicable Capacity Commitment Period, over a forward looking rolling six months. Based on the results of such liquidity assessment, low risk participants will continue to be subject to the current FCM Delivery Financial Assurance methodology and medium and high risk participants will be subject to higher collateral requirements (risk adders), as they pose higher nonpayment risk to the market. The ISO also proposes a revision (to be implemented as of February 1, 2025, the proposed effective date) to the current FCM Delivery Financial Assurance formula to better protect participants from unnecessary short spikes in collateral during the delivery month. The revisions are collectively referred to as the “FAP Revisions.”

The FAP Revisions are supported by the testimony of Mr. Christopher Nolan, Director, Market and Credit Risk (the “Nolan Testimony”).⁷ As addressed more fully in Section VI of this transmittal letter, ISO-NE respectfully requests that the FAP Revisions proposed herein become effective on February 1, 2025,⁸ with the new FCM Delivery Financial Assurance obligations arising with the June 1st initiation of the 2025 - 2026 Capacity Commitment Period. The ISO also requests that the Commission issue an order accepting the FAP Revisions no later than the effective date.

I. DESCRIPTION OF THE ISO AND COMMUNICATIONS

The ISO is the independent, private, non-profit entity that serves as the Regional Transmission Organization (“RTO”) for New England. The ISO operates the New England bulk power system and administers New England’s organized wholesale electricity market pursuant to

⁵ For purposes of this transmittal letter and accompanying testimony, participants in the Forward Capacity Market with CSOs are referred to as participants, FCM participants, market participants, or capacity sellers. However, the FAP defines these participants as “Designated FCM Participants” (*i.e.*, “[a]ny Lead Market Participant, including any Provisional Member that is a Lead Market Participant, transacting in the Forward Capacity Market that is otherwise required to provide additional financial assurance under the ISO New England Financial Assurance Policy”). FAP Section VII.

⁶ For purposes of this transmittal letter and accompanying testimony, potential PFP payment obligations are referred to as non-performance penalties or PFP penalties. Non-performance or PFP penalties colloquially describe the payments a participant may owe after failing to perform during a Capacity Scarcity Condition, although they are obligations arising under the Tariff, not true “penalties.” The defined Tariff term is Capacity Performance Payments (which can be positive or negative); defined as “the performance-dependent portion of revenue received in the Forward Capacity Market, as described in Section III.13.7.2 of Market Rule 1.” *See* Tariff Section I.2.2.

⁷ The Nolan Testimony is Attachment 3 to this transmittal letter.

⁸ During the stakeholder process, the ISO contemplated a January 1, 2025 effective date for the FAP Revisions. However, in order to provide the Commission more time to process the filing, the ISO has requested an effective date of February 1, 2025. This effective date still provides adequate time for participants to participate in the third annual reconfiguration auction and also ensures that the portion of the FAP Revisions that will be implemented as of the effective date (the IMC revisions described in more detail later in this transmittal letter) are able to be implemented at the start of a calendar month rather than mid-month which introduces implementation complexity.

the Tariff and the Transmission Operating Agreement (“TOA”) with the New England Participating Transmission Owners. In its capacity as an RTO, the ISO has the responsibility to protect the short-term reliability of the New England Control Area and to plan and operate the system according to reliability standards established by the ISO, the Northeast Power Coordinating Council, Inc. and the North American Electric Reliability Corporation.

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II. STANDARD OF REVIEW

The FAP Revisions are submitted pursuant to Section 205 of the Federal Power Act, which “gives a utility the right to file rates and terms for services rendered with its assets.”⁹ Under Section 205, the Commission “plays ‘an essentially passive and reactive’ role”¹⁰ whereby it “can reject [a filing] only if it finds that the changes proposed by the public utility are not ‘just and reasonable.’”¹¹ The Commission limits this inquiry “into whether the rates proposed by a utility are reasonable – and [this inquiry does not] extend to determining whether a proposed rate schedule is more or less reasonable than alternative rate designs.”¹² The FAP Revisions filed herein “need not be the only reasonable methodology, or even the most accurate.”¹³ As a result, even if an intervenor or the Commission develops an alternate proposal, the Commission must accept the Tariff revisions proposed in this Section 205 filing if the revisions are just and reasonable.¹⁴

⁹ *Atlantic City Elec. Co. v. FERC*, 295 F.3d 1, 9 (D.C. Cir. 2002).

¹⁰ *Id.* at 10 (quoting *City of Winnfield v. FERC*, 744 F.2d 871, 876 (D.C. Cir. 1984)).

¹¹ *Id.* at 9.

¹² *Cities of Bethany, Bushnell et al. v. FERC*, 727 F.2d 1131, 1136 (D.C. Cir.), *cert. denied*, 469 U.S. 917 (1984) (“*Cities of Bethany*”); *see also ISO New England Inc.*, 114 FERC ¶ 61,315 at P 33 and n.35 (2005), (citing *Pub. Serv. Co. of New Mexico v. FERC*, 832 F.2d 1201, 1211 (10th Cir. 1987) and *Cities of Bethany* at 1136).

¹³ *Oxy USA, Inc. v. FERC*, 64 F.3d 679, 692 (D.C. Cir. 1995) (citing *Cities of Bethany* at 1136).

¹⁴ *Cf. Southern California Edison Co., et al.*, 73 FERC ¶ 61,219 at 61,608 n.73 (1995) (“Having found the Plan to be just and reasonable, there is no need to consider in any detail the alternative plans proposed by the Joint Protesters.”) (citing *Cities of Bethany* at 1136).

III. BACKGROUND

A. *Current FCM Delivery Financial Assurance Formula and Recent Improvements*

FCM Delivery Financial Assurance is one component of the financial assurance that a market participant is required to provide if it is participating in the FCM and holds a CSO.¹⁵ One design feature of the ISO's FCM is the "pay-for-performance" or "PFP" construct which provides incentives for resources that perform during Capacity Scarcity Conditions ("CSCs") and, conversely, penalizes resources that do not perform or underperform during such conditions.¹⁶ As a result, a resource's net capacity payments (*i.e.*, payments or charges based on performance during a CSC event) may be negative and, therefore, the FAP contains financial assurance requirements to collateralize the possibility of net payment obligations under the PFP market design.¹⁷

A participant with a resource that has a CSO is required to add FCM Delivery Financial Assurance to its total financial assurance requirements calculation.¹⁸ The following is the current formula for the calculation of FCM Delivery Financial Assurance:

$$[\text{DFAMW} \times \text{PE} \times \max[(\text{ABR} - \text{CWAP}), 0.1] \times \text{SF}] - \text{IMC} - \text{MCC}$$

The formula is designed to address three types of risk: clearing risk, credit risk, and liquidation risk.¹⁹ Each risk is addressed by a different portion of the formula and is more fully explained in the Nolan Testimony.²⁰ Generally, the formula accounts for the participant's CSO megawatts, its potential exposure in the FCM, its historical performance, the amount of system-wide reserves needed to avoid CSCs, and a month specific scaling factor to account for seasonal risk.²¹ The formula also includes

¹⁵ See FAP Section VII (Forward Capacity Market specific financial assurance provisions) and Section VII.A (FCM Delivery Financial Assurance). CSOs associated with any Energy Efficiency measures are excluded from the FCM Delivery Financial Assurance calculation. See FAP Section VII.A.

¹⁶ See *ISO New England Inc. and New England Power Pool*, Filings of Performance Incentives Market Rule Changes, Docket Nos. ER14-1050-000 and ER14-1050-001 (filed Jan. 17, 2014); *ISO New England Inc. and New England Power Pool*, Compliance Filing of Two-Settlement Forward Capacity Market Design, Docket Nos. ER14-2419-000 (filed July 14, 2014); see also *ISO New England Inc. and New England Power Pool*, Order on Tariff Filing and Instituting Section 206 Proceeding, 147 FERC ¶61,172 (2014); *ISO New England Inc.*, Order on Compliance Filing, 149 FERC ¶61,009 (2014); *ISO New England Inc.*, Letter Order Accepting Compliance Filing in Docket No. ER14-2419-002 (2015).

¹⁷ *Id.*; FAP Section VII.A.

¹⁸ See FAP Section VII.A.

¹⁹ See Nolan Testimony at 10-11, 35-45.

²⁰ *Id.* at 35-45.

²¹ *Id.*

collateral to cover PFP penalties incurred prior to final settlement and payment (the “IMC” and “MCC” variables).²²

Recently, the ISO filed, and the Commission accepted, several improvements to the FCM Delivery Financial Assurance formula to: (1) decrease the liquidation risk for winter CSO positions by increasing the scaling factor (SF) for winter season months; (2) decrease the credit risk associated with CSOs by incorporating more recent operating data into the capacity weighted average performance (CWAP) of a participant’s resource portfolio so that the FCM Delivery Financial Assurance formula collateralizes based on the more recent performance data; and (3) decrease the clearing risk associated with CSOs by introducing a new variable, IMC, to cover realized penalty payments that occur within the current month thereby decreasing the duration between realized penalty payment obligations from recent CSCs to when the collateral requirements are updated.²³

B. FCM Delivery Financial Assurance Objectives

Collateral requirements to participate in the New England Markets are designed to ensure that there is sufficient cash available to clear the market each day and to cover a participant’s settled obligations in the case of a default.²⁴ More specifically, for the FCM, individual capacity sellers are expected to be able to perform during scarcity events (or CSCs) and, if they are unable to perform, to pay their full PFP payment obligation arising from such nonperformance (or underperformance).²⁵

As explained in the ISO’s December FCM Delivery FA Filing, the ISO determined that the collateral requirements related to the FCM pay-for-performance design feature (*i.e.*, FCM Delivery Financial Assurance) should be enhanced to better collateralize the financial risks that participants assume by acquiring and holding a CSO.²⁶ After Winter Storm Elliott, the ISO monitored the disputes between PJM Interconnection, L.L.C. (“PJM”) and its members over Winter Storm Elliott “non-performance” charges and generator defaults.²⁷ Of specific concern was several generators’ inability to pay PJM’s assessed penalty charges absent the Commission

²² *Id.* at 35-36.

²³ See *ISO New England Inc. and New England Power Pool*, Revisions to ISO New England Inc. Transmission, Markets, and Services Tariff to Update the FCM Delivery Financial Assurance Calculation in the Financial Assurance Policy, Docket No. ER 24-661-000 (Dec. 14, 2023) (the “December FCM Delivery FA Filing”) (accepted via Delegated Letter Order issued Feb. 9, 2024).

²⁴ See Nolan Testimony at 3.

²⁵ *Id.* at 10.

²⁶ See December FCM Delivery FA Filing, at 6-8.

²⁷ See *PJM Interconnection, LLC*, ER23-2975-000; see also *PJM, 80 Parties Agree to Trim Winter Storm Elliott Penalties*, Utility Dive (Oct. 2, 2023), <https://www.utilitydive.com/news/pjm-calpine-talen-winter-storm-elliott-penalties-settlement-agreement-ferc/695296/#:~:text=The%20PJM%20Interconnection%20and%2080,the%20Federal%20Energy%20Regulatory%20Commission>.

approved settlement, and multiple entities' bankruptcy filings as a result of the assessed penalties.²⁸ Additionally, although CSCs in New England have been somewhat limited, a few of the experienced scarcity events would have resulted in non-performance penalties up to the monthly stop-loss (if a resource did not perform) if such events had occurred at the higher payment rate that goes into effect on June 1, 2025.²⁹

As a result, the ISO determined that two primary risks needed to be addressed: (1) the risk that substantial collateral shortfalls could result if the FCM Delivery Financial Assurance formula was not modified; and (2) the higher nonpayment risk posed by capacity sellers with inadequate corporate liquidity risk profiles.³⁰ The first risk was addressed by the improvements made to the FCM Delivery Financial Assurance formula that became effective March 1, 2024³¹ and the FAP Revisions proposed in this transmittal letter address the second risk.

C. Risk of FCM Participants with Inadequate Corporate Liquidity

There is a significant risk to the New England Markets caused by the fact that many FCM participants do not have adequate corporate liquidity to satisfy their contractual,³² financial obligations related to the CSOs they were awarded and hold (*i.e.*, the obligation to pay penalty amounts if their resources do not perform during CSCs).³³ Without adequate corporate liquidity, these entities pose significant default risk after the occurrence of multiple months containing CSCs.³⁴ Regardless of seasonal risk, CSCs can occur at any time during the Capacity Commitment Period and participants that do not perform during such events can incur significant penalty

²⁸ See Nolan Testimony at 3-4, 17-18; *PJM Interconnection, L.L.C.*, [Offer of Settlement in Winter Storm Elliot Complaints, Docket No. ER23-2975-000, at Section 7.3 \(filed Sept. 29, 2023\)](#) (stating "This Settlement does not apply to the bankruptcy proceedings initiated prior to the filing date of this Settlement, including those of debtors Lincoln Power, L.L.C, et al., jointly administered under Case No. 23-10382 (Bankr. D. Del.); EFS Parlin Holdings, LLC, Case No. 23-10539 (Bankr. D. Del.); and Heritage Power, LLC, et al., jointly administered under Case No. 23-90032 (Bankr. S.D. Tex.).").

²⁹ See Nolan Testimony at 3-4, 31. The PFP (or non-performance) penalty rate has recently increased and will increase again on June 1, 2025. Tariff Section III.13.7.2.5 (describing a Performance Payment Rate \$3500/MWh between June 1, 2021 and May 31, 2024, \$5455/MWh between June 1, 2024 and May 31, 2025, and \$9337/MWh beginning on June 1, 2025); see also December FCM Delivery FA Filing, at 3 (mistakenly referring to the change in the Performance Payment Rate occurring in 2024 and 2026, rather than 2024 and 2025).

³⁰ See December FCM Delivery FA Filing, at 6-8 (explaining risks of collateral shortfalls); Nolan Testimony at 4 (explaining higher nonpayment risks posed by capacity sellers with inadequate corporate liquidity).

³¹ See generally December FCM Delivery FA Filing.

³² Throughout this transmittal letter and the accompanying testimony, CSO obligations are referred to as contractual because to become a Market Participant, an entity must sign a Market Participant Service Agreement, which requires the Market Participant to be bound by the terms of the Tariff, including the rules for participating in the FCM. See Tariff Sections 1.2.2, I.3.1; see also Tariff Attachment A, Section 3.2.

³³ See Nolan Testimony at 6.

³⁴ *Id.*

payments.³⁵ The non-performance penalty rates are effective on a Capacity Commitment Period basis (June 1 - May 31) and assessments for non-performance are limited each month by operation of the monthly stop-loss (as described in III.13.7.3.1 of Market Rule 1) and aggregate to the annual stop-loss (as described in Section III.13.7.3.2 of Market Rule 1).³⁶ The ISO's financial assurance program protects all market participants against nonpayment risks by ensuring that a participant has the ability to pay its invoices, for all aspects of its market participation.³⁷ If the potential for non-performance penalties during the Capacity Commitment Period in which a participant holds a CSO are not properly accounted for on a participant's balance sheet, they can place significant stress on the participant's ability to timely pay invoices that include penalty payments.³⁸ Because the ISO's Billing Policy requires a participant to pay within two Business Days, if a participant has not properly accounted for this risk by having enough short-term liquidity (*e.g.*, cash on hand, available credit facilities, marketable securities), it is unlikely that it would be able to resolve the liquidity needs in time to pay its invoice within the two day window.³⁹ However, even if a participant were afforded a longer time to pay such invoice, the ability to resolve liquidity needs after a significant obligation has been incurred (if it wasn't properly planned for) can jeopardize the financial health of the whole entity and potentially result in a bankruptcy filing.⁴⁰

As explained in the Nolan Testimony, even short duration CSCs can result in capacity sellers owing the ISO their maximum monthly financial contractual obligation if they are unable to perform or timely address operational performance issues.⁴¹ In other words, the underlying event's duration does not need to be an extreme, days' long event for a participant's maximum monthly penalty to be triggered.⁴² Furthermore, if a participant incurs its maximum monthly obligation during several months of the Capacity Commitment Period (up to its annual stop-loss amount), the strain on liquidity will become even more pronounced if such risk was not properly accounted for.⁴³ And, despite certain months having a higher risk of the occurrence of CSCs than others, transient capacity scarcity events and stressed market conditions may occur during any month throughout the year which means that it would not be unexpected for a participant (with a resource(s) that does not perform) to incur their maximum penalty during more than one month per Capacity Commitment Period.⁴⁴

³⁵ *Id.* at 6-7.

³⁶ See Tariff Sections III.13.7.3.1; III.13.7.3.2; *see also* Nolan Testimony at 6-7.

³⁷ See Nolan Testimony at 15-18.

³⁸ See *id.* at 6-9, 15-18.

³⁹ *Id.* at 6-9; ISO New England Billing Policy, Section 3.1 (the Billing Policy is Exhibit ID to the Tariff).

⁴⁰ See Nolan Testimony at 6-9.

⁴¹ *Id.* at 7-8.

⁴² *Id.*

⁴³ *Id.* at 9, 17.

⁴⁴ *Id.* at 9.

Regardless of when a scarcity event happens, or how many months within a Capacity Commitment Period have scarcity events, or the probability of additional events occurring, by virtue of acquiring and holding a CSO, a participant is expected to account for the financial risk that penalties may be incurred if the participant's resource(s) is/are unable to perform during stressed conditions.⁴⁵ The risk of a resource being unable to perform (or underperforming) should be borne by the entity with the CSO, not the pool via socialized defaults.⁴⁶

Because the portion of the FCM Delivery Financial Assurance formula that covers credit risk is not designed to fully collateralize all potential risk up to the full amount of potential penalties (*i.e.*, the annual stop-loss), it is particularly important that capacity sellers account for such risk on their balance sheets and are able to post incremental collateral as penalties are incurred.⁴⁷ Put another way, the FCM Delivery Financial Assurance formula does not require the full amount of potential penalties *upfront* as collateral.⁴⁸ Instead, as penalties are incurred, the clearing risk portion of the formula (*i.e.*, the IMC and MCC variables) provides for the collateralization of the incurred penalties until they are paid.⁴⁹ However, the effectiveness of the current methodology assumes that participants have sufficient liquidity to meet the full amount of their potential penalties.⁵⁰ If a participant does not have adequate liquidity to post that incremental financial assurance amount, it also means they may not have the liquidity to discharge their obligations once settled.⁵¹ Therefore, the FAP Revisions address the issue that not all participants that have acquired and hold CSOs have adequate liquidity profiles by requiring those with insufficient liquidity to post more collateral upfront and on an ongoing basis to address the heightened risk that they pose to the market.⁵²

D. Identification of Risk and Potential Mitigation

To evaluate the risk of FCM participants with inadequate liquidity, the ISO analyzed the corporate liquidity of all capacity sellers that have CSOs for the 2025 - 2026 Capacity Commitment

⁴⁵ *Id.* at 9.

⁴⁶ *Id.* at 15-18 (explaining that, unlike other capacity markets where performance related penalties may only be socialized among other capacity sellers, the PFP obligations in ISO New England are not segregated from other market settlements, and therefore, that default amounts that cannot be covered by the Late Payment Account or the ISO's short-term funding facility will result in reduced payments to participants (from any sector) that are due to receive remittances (*i.e.*, payments) in the billing cycle in which the default occurs).

⁴⁷ See Nolan Testimony at 12-13.

⁴⁸ *Id.*

⁴⁹ *Id.*

⁵⁰ *Id.*

⁵¹ *Id.*

⁵² *Id.* at 11-13, 46, 68.

Period.⁵³ As explained in the Nolan Testimony, this analysis showed that a substantial number of capacity sellers cannot demonstrate access to adequate corporate liquidity to ensure that they are able to pay potential non-performance penalty charges.⁵⁴ Looking at five months (roughly the time it takes to reach the annual stop-loss amount) during the 2025 - 2026 Capacity Commitment Period, the percentage of CSOs held by participants that have enough corporate liquidity to meet their monthly stop-loss amount steadily decreases as the number of months during which they incur the monthly stop-loss amount increases.⁵⁵ During the fifth month only 17% of CSO volume is held by participants with CSOs for the 2025 - 2026 Capacity Commitment Period that reported enough corporate liquidity to cover the maximum potential contractual obligations associated with their CSO (*i.e.*, roughly their annual stop-loss amount).⁵⁶ But even more striking is that more than three quarters of the CSO volume is held by participants that do not have enough corporate liquidity to cover two months of non-performance penalties.⁵⁷ Furthermore, during stressed market conditions it is possible that multiple participants with inadequate corporate liquidity may incur non-performance penalties that they are unable to pay.⁵⁸

However, as the Nolan Testimony also explains, although many participants do not have sufficient corporate liquidity to meet their potential financial obligations arising from their CSO, the picture significantly improves when parent entities' liquidity are also considered.⁵⁹ For example, during the fifth month where only 17% of the CSO volume is held by participants that reported enough liquidity to cover the maximum potential amount, 86% of the volume have parent entities with enough liquidity.⁶⁰ For two months of maximum potential non-performance penalties, 92% of the CSO volume is held by parent entities that do have enough liquidity.⁶¹ This is because many participants are part of larger corporate families with entities that *do* have adequate liquidity where the corporate treasury teams manage cash flows at the parent/holding company level.⁶²

⁵³ *Id.* at 13-15. The 2025 - 2026 Capacity Commitment Period is associated with the sixteenth Forward Capacity Auction and is from June 1, 2025 through May 31, 2026.

⁵⁴ *Id.* at 13-15.

⁵⁵ *Id.* (explaining that five months is approximately the amount of consecutive or non-consecutive months it would take to reach the annual stop-loss amount based on the market prices specifically associated with the sixteenth Forward Capacity Auction, assuming a flat CSO profile). The amount of months it takes to reach the annual-stop loss will vary based on the ratio of the Forward Capacity Auction Starting Price and the Capacity Clearing Price for each auction. *See* Tariff Section III.13.7.3.2.

⁵⁶ *See* Nolan Testimony at 13-15.

⁵⁷ *Id.*

⁵⁸ *Id.* at 15-18, 30-31.

⁵⁹ *Id.* at 15.

⁶⁰ *Id.*

⁶¹ *Id.*

⁶² *Id.* at 15, 32, 47-48.

Therefore, the FAP Revisions evaluate capacity sellers' corporate liquidity as compared to their potential non-performance penalties and requires more collateral upfront and on an ongoing basis for the entities deemed riskiest to the market, but also provide that the liquidity assessment will be done at the parent (or affiliate level) if such parent (or affiliate entity) guarantees the payment of the market participant's potential non-performance penalties.⁶³ This approach recognizes that many parent or affiliate entities, particularly entities that are energy industry companies (as opposed to financial or private equity firms), would be incentivized to fund non-performance penalties if they arose.⁶⁴

E. Impact of FAP Revisions

As noted above and explained in more detail below, the FAP Revisions provide that higher risk entities (that choose not to or cannot adjust their balance sheets or provide an Affiliate guaranty) will be required to post more FCM Delivery Financial Assurance (either as money in a BlackRock account or a letter of credit) to account for the heightened risk to the market.⁶⁵ Therefore, when developing the FAP Revisions, the ISO looked at several potentially impacted parties: (1) capacity sellers (and specifically, entities currently holding CSOs for the 2025 - 2026 Capacity Commitment Period); (2) the New England Markets, including other participants within the markets; and (3) consumers.⁶⁶ Importantly, entities that have accounted for the risk of potential non-performance penalties (up to, approximately, the annual stop-loss) will not be required to post any additional collateral as such entities' balance sheets show that such entities will be able to pay penalties as incurred.⁶⁷

With respect to capacity sellers that have a CSO for the 2025 - 2026 Capacity Commitment Period (beginning June 1, 2025), the ISO expects the aggregated FCM Delivery Financial Assurance obligations to increase by an average of \$72 million to \$90 million over such Capacity Commitment Period depending on the number of Affiliate guaranties received by the ISO.⁶⁸ As explained in the Nolan Testimony, if the ISO receives the maximum number of guaranties (for the 2025 - 2026 Capacity Commitment Period) from eligible Affiliates, the total increase in collateral requirements would be an average of \$35 million.⁶⁹ This is because out of a total of approximately 32.8 GW of CSOs held by participants for the 2025 - 2026 Capacity Commitment Period, 3.3 GW of CSOs would still fall into the high and medium risk categories and all other participants would

⁶³ *Id.* at 5; Revised FAP Section VII.A.

⁶⁴ See Nolan Testimony at 22-23. More details regarding the ISO's assumptions regarding entities that may provide a guaranty, guaranteeing the payment of PFP penalties, is provided in the Nolan Testimony. *Id.* at 19-25.

⁶⁵ See *supra* at p. 2; *infra* at pp. 12-13, 20-21.

⁶⁶ See Nolan Testimony at 27-31.

⁶⁷ See *id.* at 27; Revised FAP Section VII.A.1.

⁶⁸ See Nolan Testimony at 25-27.

⁶⁹ *Id.* at 19-22, 26.

be covered by a guaranty or have adequate corporate liquidity.⁷⁰ If the ISO received no guaranties, the total increase in collateral requirements would be an average of \$154 million.⁷¹

However (for the 2025 - 2026 Capacity Commitment Period), the ISO does not assume that it will receive the maximum number of guaranties, nor does it expect to receive no guaranties.⁷² Instead, the ISO expects the number of guaranties to fall within a range and so the ISO developed two case scenarios to account for the range of guaranties it expects.⁷³ The first scenario: high case guaranties assumes that a larger amount of market participants use the Affiliate guaranty option (resulting in the lower end of the expected range of increased FCM Delivery Financial Assurance: \$72 million).⁷⁴ The second scenario: low case guaranties, assumes that less participants utilize the Affiliate guaranty option (resulting in the higher end of the expected range of increased FCM Delivery Financial Assurance: \$90 million).⁷⁵ And again, capacity sellers can avoid posting incremental financial assurance pursuant to the FAP revisions by either adjusting their balance sheet (by increasing liquid assets or obtaining an additional line of credit) to account for the full risk of non-performance penalties, providing an Affiliate guaranty, or shedding their position.⁷⁶ If a participant does not provide a guaranty or demonstrate sufficient corporate liquidity, it will be required to post the incremental FCM Delivery Financial Assurance per the FAP Revisions.⁷⁷ The Nolan Testimony details the development of these scenarios in more detail.⁷⁸

Regarding the impact to other affected parties, including the remainder of participants within the New England Markets (both participants within the FCM and other market participants), the FAP Revisions shift risk of socialized defaults resulting from capacity sellers that do not have adequate corporate liquidity to the capacity sellers who have taken on the contractual obligation to perform during CSCs or pay PFP penalties.⁷⁹ Furthermore, in developing the FAP Revisions, the ISO analyzed the potential cost impacts to consumers if capacity sellers were to fully pass through the cost of the incremental collateral increase in a future auction offer.⁸⁰ Using conservative cost assumptions (at the request of stakeholders) from the nineteenth Forward Capacity Auction Net CONE updates: on the low end, using the after tax cost of debt and on the

⁷⁰ *Id.*

⁷¹ *Id.*

⁷² *Id.* at 21-22.

⁷³ *Id.*

⁷⁴ *Id.* at 22-25.

⁷⁵ *Id.* at 25-27.

⁷⁶ *Id.* at 6-7, 27, 59.

⁷⁷ *Id.* at 67-68; Revised FAP Sections VII.A.1 and VII.A.2.

⁷⁸ *See* Nolan Testimony at 19-27.

⁷⁹ *Id.* at 15-18.

⁸⁰ *Id.* at 27-31.

high end, using the after tax weighted average cost of capital, the *potential* cost to consumers is immaterial and ranges from \$0.00003/kWh to \$0.00007/kWh while the integrity of the consumer's capacity hedge is significantly improved as potential socialized defaults are mitigated.⁸¹ As explained in the Nolan Testimony, whether these costs would be passed through to consumers is based on a number of assumptions, so the ISO's cost analysis was performed to be illustrative, but not definitive.⁸²

IV. DESCRIPTION OF THE PROPOSED TARIFF REVISIONS

The FAP Revisions address four main topics: (1) the new corporate liquidity assessment (including provisions related to Affiliate guaranties); (2) the new collateral methodologies that apply based on the outcome of the new corporate liquidity assessment; (3) how the new corporate liquidity assessment will interact with the existing capitalization requirements in the FAP; and (4) improvements to the existing IMC variable in the FCM Delivery Financial Assurance formula.

A. *Corporate Liquidity Assessment*

The FAP Revisions provide that, starting with the 2025 - 2026 Capacity Commitment Period (and each Capacity Commitment Period thereafter), each FCM participant that has a CSO, shall be subject to a "Corporate Liquidity Assessment" to determine its FCM Delivery Financial Assurance.⁸³

Generally, the Corporate Liquidity Assessment looks at a participant's CSO profile over the next six months (beginning with the current delivery month) and identifies the participant's three largest monthly stop-losses over that six month period.⁸⁴ If the participant's "Available Corporate Liquidity" is greater than or equal to the sum of the three largest monthly stop-losses, the participant will be assessed as low risk.⁸⁵ If the participant's corporate liquidity is greater than or equal to the sum of the largest two monthly stop-losses, the participant will be assessed as

⁸¹ *Id.* at 28-29 (explaining why Net CONE assumptions may be particularly conservative, but that using such values does not change the ISO's overall cost impact analysis).

⁸² *Id.* at 30.

⁸³ Revised FAP Section VII.A.

⁸⁴ *Id.* at Section VII.A.2; Nolan Testimony at 47. Again, the ISO will not begin the Corporate Liquidity Assessment until the start of the 2025 - 2026 Capacity Commitment Period, so the rolling six month window in which the ISO will compare the sum of the three largest monthly stop-losses to available liquidity will not begin until June 1, 2025. To the extent that a participant has a CSO in the 2026 - 2027 Capacity Commitment Period, the six month look ahead window will eventually capture those obligations towards the end of the 2025 - 2026 Capacity Commitment Period. *See* Revised FAP Section VII.A.2.

⁸⁵ Revised FAP Section VII.A.2(a).

medium risk, and if the participant's corporate liquidity is less than the sum of the largest two monthly stop-losses, the participant will be assessed as high risk.⁸⁶

As explained above, many participants that do not have adequate corporate liquidity to cover their potential non-performance penalties are part of a corporate family with entities that do have adequate corporate liquidity.⁸⁷ In many instances, the cash flows generated by capacity sellers are swept up to equity owners.⁸⁸ As a result, the FAP Revisions provide that the ISO will conduct the Corporate Liquidity Assessment at a parent or affiliate level, if such parent or affiliate provides a guaranty to the ISO guaranteeing the payment of the participant's Capacity Performance Payments (*i.e.*, non-performance penalties).⁸⁹ The FAP Revisions also provide that if a guaranty is guaranteeing the non-performance penalties of multiple participants (or if a participant is also guaranteeing an Affiliate), then the participants will be assessed as a whole and assigned one Corporate Liquidity Assessment result (*i.e.*, low risk, medium risk, or high risk).⁹⁰ Similarly, if a participant provides a guaranty from multiple Affiliates, the guarantors will be assessed on an aggregate basis for purposes of the Available Corporate Liquidity calculation taking into account other guaranties provided by the guarantors.⁹¹ By assessing entities collectively and taking into account whether a guarantor is guaranteeing multiple participants with potential for non-performance penalties, the Corporate Liquidity Assessment is able to evaluate the total liquidity of the guaranteeing entities against the collective potential non-performance penalties during the six month calculation window.⁹²

⁸⁶ *Id.*

⁸⁷ See Nolan Testimony at 32, 60; *supra* at p. 9.

⁸⁸ *Id.*

⁸⁹ Revised FAP Section VII.A.2 ("For the avoidance of doubt, the components of the Available Corporate Liquidity calculation that are derived from financial statements shall be based on the financial statements of the Designated FCM Participant unless it provides an Affiliate guaranty in compliance with this Section VII.A, in which case the values shall be based on the financial statements of the entity(ies) providing the guaranty. If an acceptable Affiliate guaranty is provided, stop-loss and excess financial assurance values will still be based on the Designated FCM Participant.")

⁹⁰ Revised FAP Section VII.A.2(b). When assessing multiple participants as a whole for purposes of the Corporate Liquidity Assessment, the Applicable Monthly Stop-losses for each participant are aggregated for each month during the six month Calculation Period. *Id.* The test is otherwise the same as when assessing single participants (*i.e.*, when Available Corporate Liquidity is greater than or equal to the sum of the three largest aggregated Applicable Monthly Stop-losses during the Calculation Period, each Designated FCM Participant in the collective assessment is considered low risk; less than the sum of the three largest aggregated Applicable Monthly Stop-losses but greater than or equal to the sum of two largest aggregated Applicable Monthly Stop-losses during the Calculation Period, each Designated FCM Participant in the collective assessment is considered medium risk; and less than the sum of the two largest aggregated Applicable Monthly Stop-losses during the Calculation Period, each Designated FCM Participant in the collective assessment is considered high risk). *Id.*

⁹¹ Revised FAP Section VII.A.2(c); Nolan Testimony at 60-61.

⁹² See Nolan Testimony at 60-61.

i. Corporate Liquidity Assessment Components

As noted above, the Corporate Liquidity Assessment compares a participant's "Available Corporate Liquidity" against "Applicable Monthly Stop-losses" over a "Calculation Period" of six months beginning with the current delivery month.⁹³ Applicable Monthly Stop-loss is a value that allows the ISO to review the participant's maximum potential penalty obligations over the next six months and equals the sum of the monthly stop-losses for each resource in a participant's portfolio as described in Section III.13.7.3.1 of Market Rule 1 (*i.e.*, the monthly stop-loss rule).⁹⁴ Available Corporate Liquidity is a measurement of the participant's liquid assets available to pay short-term obligations such as non-performance penalties and is the sum of a participant's: (a) unrestricted cash and cash equivalents; (b) marketable securities and money market instruments; (c) undrawn committed credit facilities not expiring within three months of the date of the applicable financial statements; and (d) financial assurance already provided by the market participant to cover its FCM Delivery Financial Assurance obligations and any financial assurance in excess of its financial assurance obligations.⁹⁵ With respect to the financial assurance value, the calculation specifically only includes financial assurance in excess of a participant's total obligations under the FAP and financial assurance covering FCM Delivery Financial Assurance because, any other financial assurance that has been provided, is to cover other market obligations (such as energy market obligations) and therefore should not be considered when looking at a participant's ability to satisfy potential non-performance penalties.⁹⁶

The FAP Revisions provide that the first three components of Available Corporate Liquidity will be based on participant financial statements (as explained below) and the financial assurance value is as reflected in the ISO's Financial Assurance Management (FAM) or equivalent system.⁹⁷ If a guaranty is provided, then the Available Corporate Liquidity values derived from financial statements will be from the guarantor financial statements, but the financial assurance values (and any stop-loss calculations) will be at the participant level.⁹⁸

Once determined, Available Corporate Liquidity is compared against the participant's potential non-performance payment obligations over the next six months.⁹⁹ As noted above, if the participant's Available Corporate Liquidity is greater than or equal to the sum of the three largest monthly stop-losses, the participant will be assessed as low risk; if the participant's corporate

⁹³ Revised FAP Section VII.A.2.

⁹⁴ *Id.*

⁹⁵ *Id.* For simplicity, the FAP Revisions use the phrase "excess financial assurance" in the initial definition of Available Corporate Liquidity and then later define what is considered "excess financial assurance."

⁹⁶ See Nolan Testimony at 51-53.

⁹⁷ Revised FAP Section VII.A.2.

⁹⁸ *Id.*

⁹⁹ *Id.*

liquidity is greater than or equal to the sum of the two largest monthly stop-losses, the participant will be assessed as medium risk; and if the participant's corporate liquidity is less than the sum of the two largest monthly stop-losses, the participant will be assessed as high risk.¹⁰⁰

As explained in more detail in the Nolan Testimony, the ISO categorized market participants, from a corporate liquidity risk perspective, based on their ability to pay their maximum PFP penalties in monthly increments because, for the 2025 - 2026 Capacity Commitment Period, it will only take a short duration event of approximately two hours, on average, for participants to incur their maximum penalties in a single month.¹⁰¹ Therefore, the corporate liquidity risk categories are driven by the ability of market participants to demonstrate that they can at least fund their exposure to PFP penalty payments in increments of a month so that the ISO can settle the market on a timely basis when the monthly invoices become due.¹⁰² Consequently, participants that are assessed in the low risk category can adequately demonstrate their ability to cover at least three months of maximum potential penalty payments (*i.e.*, the approximate duration of a high risk season) based on their access to cash or short-term liquidity internally.¹⁰³ The medium risk category was introduced to identify higher risk market participants that are able to demonstrate corporate liquidity to cover less than three months but more than two months of potential penalty payments.¹⁰⁴ Similarly, the high risk category was introduced to identify the highest risk market participants that cannot demonstrate enough corporate liquidity on their balance sheet to cover just two months of their maximum potential penalty payments as there is a higher probability of CSCs occurring during two months of the Capacity Commitment Period compared to five months, for example, which would aggregate approximately up to the annual stop-loss.¹⁰⁵

ii. Financial Statements Reporting Requirements

As noted above, the first three components of Available Corporate Liquidity (*e.g.*, cash, marketable securities, and undrawn credit facilities) are values that are typically reflected on a company's financial statements or balance sheet and used in standard liquidity assessments.¹⁰⁶ Therefore, for purposes of calculating Available Corporate Liquidity, the FAP Revisions require

¹⁰⁰ *Id.*

¹⁰¹ *See* Nolan Testimony at 8, 48-51.

¹⁰² *Id.* at 48-51.

¹⁰³ *Id.* The Nolan Testimony explains why the "low risk" assessment is based on the participant having liquidity available to meet at least the sum of its three largest monthly stop-losses, even though the annual stop-loss amount is approximately five times the monthly stop-loss amount. *Id.* (explaining that frequently the ISO will have setoff rights from a capacity seller's base capacity payments that it may exercise if a participant defaults).

¹⁰⁴ *Id.* at 50.

¹⁰⁵ *Id.* at 50-51.

¹⁰⁶ *See* Nolan Testimony at 51-53.

that participants periodically submit financial statements so that the ISO can complete the calculation.¹⁰⁷ The FAP Revisions provide that other than with respect to excess financial assurance, the elements of Available Corporate Liquidity are as reflected on the most recent financial statements provided by the participant, provided that such financial statements were provided for the most recently completed financial reporting period and compliant with the requirements of Revised FAP Section VII.A.¹⁰⁸ The FAP Revisions also provide that the values of Available Corporate Liquidity derived from financial statements must be calculated in accordance with international accounting standards or generally accepted accounting principles in the United States at the time of determination consistently applied.¹⁰⁹ In other words, if a participant provides financial statements that are from a prior reporting period, or that use non-GAAP values, or that are not accompanied by the appropriate officer's certificate (explained below), then the values from the financial statements will be assigned \$0.00 for purposes of the Corporate Liquidity Assessment.¹¹⁰

The FAP Revisions provide that each participant shall submit to the ISO, on a quarterly basis, its (or its guarantor's, as applicable) audited or unaudited balance sheet or equivalent financial statements, which shall show sufficient detail for the ISO to assess the components of Available Corporate Liquidity.¹¹¹ To ensure integrity of the data and to ease the administrative burden on the ISO, the FAP Revisions also provide that participants must submit their financial statements with a certificate from a Senior Officer¹¹² of the participant (or guarantor, as applicable) that provides the relevant financial information and certifies the accuracy of the attached financial statements.¹¹³ The certificate must also indicate the level of accounting attestation, if an attestation was made by an independent accounting firm; if no attestation was made by an independent accounting firm, then no such indication is required.¹¹⁴ These financial statement reporting requirements are generally consistent with other financial statement reporting requirements in the FAP and allow participants to submit financials that are consistent with how their company already prepares financial statements.¹¹⁵ To facilitate an efficient review of financial statements and the information provided therein, the ISO believes that having a standard form certificate provided

¹⁰⁷ Revised FAP Section VII.A.2.

¹⁰⁸ *Id.*

¹⁰⁹ *Id.*

¹¹⁰ *Id.*; Nolan Testimony at 58-59.

¹¹¹ Revised FAP Sections VII.A.2; VII.A.3.

¹¹² Senior Officer is defined in Section I of the Tariff as "an officer of the subject entity with the title of vice president (or similar office) or higher, or another officer designated in writing to the ISO by that officer." Tariff Section I.2.2.

¹¹³ Revised FAP Section VII.A.2.

¹¹⁴ *Id.*

¹¹⁵ See Nolan Testimony at 53-55; FAP Section II.C.3 (financial statement reporting requirements for participants with credit limits).

with the financial statements will streamline the reporting process.¹¹⁶ Therefore, the FAP Revisions also provide that the ISO shall post a generally acceptable “clean” form of certificate on its website.¹¹⁷

For purposes of the Corporate Liquidity Assessment, the FAP Revisions provide that financial statements should be provided on a quarterly basis and be submitted within 10 days of such statements becoming available and within 65 days after the end of the applicable fiscal quarter.¹¹⁸ However, some participants that are in higher risk categories may find it advantageous to provide more frequent reporting (as opposed to having to wait another quarter for a more favorable liquidity profile).¹¹⁹ Such participants may provide financial statements on a monthly basis until such time as they are assessed lower risk, provided that such election is made for at least six consecutive months of lower risk (*e.g.*, from high risk to medium risk, medium risk to low risk, or high risk to low risk).¹²⁰ As explained in the Nolan Testimony, requiring monthly reporting (once a participant opts in) for at least a six month period ensures that participants are not improperly switching how frequently they are providing financial statements to the ISO to obscure an accurate liquidity assessment.¹²¹ Monthly financial statements must be submitted within 20 days after the end of the prior month.¹²²

To ensure that the ISO is able to manage a diligent review of submitted financial statements without undue administrative burden, the FAP Revisions provide that the ISO shall review the information provided for the Corporate Liquidity Assessment on a rolling basis and will calculate the Available Corporate Liquidity within a reasonable time period which shall not exceed 30 Business Days from the date of receipt.¹²³ This gives the ISO time to review, but also sets a limit on its review time, both in terms of reasonableness (which may be less than 30 Business Days) and the maximum time of 30 Business Days.¹²⁴

The FAP Revisions provide that a participant may choose not to submit financial statements for purposes of the Corporate Liquidity Assessment in which case the ISO will use a value of \$0.00 for those values derived from financial statements until such time as compliant

¹¹⁶ See Nolan Testimony at 54-55.

¹¹⁷ Revised FAP Section VII.A.2.

¹¹⁸ *Id.*

¹¹⁹ See Nolan Testimony at 57-58.

¹²⁰ Revised FAP Section VII.A.2.

¹²¹ See Nolan Testimony at 57-58.

¹²² Revised FAP Section VII.A.2.

¹²³ *Id.*

¹²⁴ *Id.*

financial statements are provided.¹²⁵ Additionally, the FAP Revisions provide that the ISO will use a value of \$0.00 for financial statement values if noncompliant financial statements are provided (*e.g.*, those not in compliance with GAAP or those that are not accompanied by an appropriate officer's certificate).¹²⁶ Structuring the FAP Revisions this way avoids unnecessary defaults under the FAP; if a participant doesn't provide financial statements, it does not trigger any default or suspension if they otherwise have enough financial assurance, but rather results in a \$0.00 value for the components of Available Corporate Liquidity derived from financial statements until compliant financial statements are provided.¹²⁷

iii. Affiliate Guaranties

As stated above, for purposes of the Corporate Liquidity Assessment, participants may provide a parent or affiliate guaranty guaranteeing the payment of all non-performance penalties (*i.e.*, Capacity Performance Payments) owed by such participant.¹²⁸ If a compliant guaranty is provided, then the guarantor must provide financial statements and the Corporate Liquidity Assessment components derived from financial statements will be based on the guarantor's financial statements (rather than participant financial statements).¹²⁹ The use of guaranties in this limited context recognizes that adequate corporate liquidity may not be at the subsidiary level, but that parent level entities (or other entities within the corporate family) may have adequate liquidity and be incentivized to pay incurred non-performance penalties for their subsidiary or affiliate.¹³⁰

More specifically, the FAP Revisions provide that the guaranty must be from an Affiliate¹³¹ must be unconditional and irrevocable; guaranty the payment of all Capacity Performance Payments (*i.e.*, non-performance penalties); and be in the form posted on the ISO's website with only minor, non-material changes (as determined by the ISO in its sole discretion).¹³² Additionally,

¹²⁵ *Id.* ("A Designated FCM Participant may choose not to submit financial statements as described in this Section VII.A").

¹²⁶ *Id.*

¹²⁷ *Id.*; Nolan Testimony at 58-59.

¹²⁸ Revised FAP Section VII.A.3.

¹²⁹ *Id.* And, as explained in this transmittal letter, financial assurance values in the Available Corporate Liquidity calculation and stop-loss values in the FCM Delivery Financial Assurance calculation and Corporate Liquidity Assessment are evaluated at the participant level.

¹³⁰ *See* Nolan Testimony at 47-48, 60.

¹³¹ Under Section I of the Tariff, Affiliate is defined as "any person or entity that controls, is controlled by, or is under common control by another person or entity. For purposes of this definition, "control" means the possession, directly or indirectly, of the authority to direct the management or policies of an entity. A voting interest of ten percent or more shall create a rebuttable presumption of control." Tariff, Section I.2.2.

¹³² Revised FAP Section VII.A.3. The ISO has indicated in the form guaranty which sections may need to be modified in the case of a foreign guarantor. The form also indicates that additional provisions may need to be inserted specific to the guarantor's country of origin to ensure the enforceability of the guaranty.

to ensure that the full amount of non-performance penalties are guaranteed, if the guaranty is from multiple Affiliates, then their liability must be joint and several.¹³³ The form guaranty contains standard representations and warranties as well as a requirement for the guarantor to provide financial information to the ISO for purposes of the Corporate Liquidity Assessment.¹³⁴ Finally, to allow for flexibility as guaranty case law develops or improvements are identified, the FAP Revisions provide that the ISO may update the form of guaranty in its sole discretion.¹³⁵

Importantly, the FAP Revisions also provide that the ISO may (at any time) in its sole discretion, choose to reject or terminate a guaranty because such guaranty presents unreasonable risk to the ISO or the New England Markets.¹³⁶ As explained in the Nolan Testimony, this flexibility is crucial to allow the ISO to respond to updated liquidity or financial information regarding the guarantor that may be available to the market.¹³⁷ However, it is also important that the FAP Revisions account for the fact that the ISO's decision to reject or terminate a guaranty may have significant financial assurance impacts for the participant (because without the benefit of the guaranty it will likely become classified as medium or high risk with additional collateral requirements).¹³⁸ If a participant cannot post the incremental collateral required based on its updated Corporate Liquidity Assessment without the benefit of its guaranty, they will be suspended.¹³⁹ Therefore, the FAP Revisions strike a balance: in the case of a termination (or planned termination), upon the ISO providing notice to the participant, the guaranty shall not be considered for purposes of such participant's Corporate Liquidity Assessment beginning at 8:30 a.m. on the next Business Day, but the ISO may, in its sole discretion, extend this period by up to

¹³³ *Id.*

¹³⁴ <https://www.iso-ne.com/static-assets/documents/100013/guaranty-agreement.pdf>. The foregoing link is a form of guaranty posted for discussion, once the FAP Revisions become effective, the ISO will post the form guaranty on the Financial Assurance and Credit webpage that contains the necessary financial assurance documents and information for participants: <https://www.iso-ne.com/participate/applications-status-changes/financial-assurance-credit>.

¹³⁵ Revised FAP Section VII.A.3. Importantly, the ISO would need to propose and file FAP changes if the ISO proposed updating the fundamental components of the guaranty or the overall structure because the FAP Revisions reflect those essential terms. Therefore, the flexibility for the ISO to update the form guaranty in its sole discretion is not blanket authority to change the components of the Corporate Liquidity Assessment, including the key components of the guaranty.

¹³⁶ Revised FAP Section VII.A.3.

¹³⁷ See Nolan Testimony at 63. The form guaranty also has a material adverse change clause requiring the guarantor to notify the ISO if there is a "material adverse change in the financial condition of Guarantor, or the increase in, or the addition of any new, material liability, direct or indirect, fixed or contingent, which change(s) or liability(ies) would (individually or in the aggregate) have a material adverse effect on Guarantor's ability to perform its obligations [under the guaranty]." Form Guaranty, Section 14.v <https://www.iso-ne.com/static-assets/documents/100013/guaranty-agreement.pdf>.

¹³⁸ See Nolan Testimony at 63-66.

¹³⁹ *Id.*; see also FAP Section III.B.

twenty (20) Business Days.¹⁴⁰ The ISO will evaluate these instances on a case by case basis and evaluate the risk to the market if a participant is afforded an extended cure period.¹⁴¹

Relatedly, the form guaranty provides that it will terminate at the earlier of (a) termination by the ISO, (b) the ISO providing written consent to terminate (not to be unreasonably withheld) so long as the guaranteed participant has provided adequate financial assurance, or (c) when the participant no longer has obligations under the FAP.¹⁴² Because the guaranty governs the relationship between the ISO and the guarantor, while the FAP governs the relationship between the ISO and the participant, the FAP Revisions make clear that if the ISO notifies the participant that its Affiliate guaranty is being terminated, that notice to the market participant is not the contractual notice required under the guaranty.¹⁴³ This is important because the ISO will likely want to notify the participant in advance that its Affiliate guaranty is being terminated while leaving the guaranty in place until such time as the market participant has posted adequate financial assurance.¹⁴⁴

Finally, the FAP Revisions provide that the ISO has the right to draw upon the guaranty in the event of a default under the ISO New England Billing Policy up to any amount owed for unpaid Capacity Performance Payments.¹⁴⁵

B. Revised FCM Delivery Financial Assurance Methodology Based on Corporate Liquidity Assessment

Based on the Corporate Liquidity Assessment, a participant will be assessed as low risk, medium risk, or high risk.¹⁴⁶ Low risk entities will continue to be subject to the existing FCM Delivery Financial Assurance calculation (subject to the enhancements to the IMC variable, described below).¹⁴⁷ Medium risk and high risk entities will have a risk adder(s) added to their FCM Delivery Financial Assurance calculation to account for the increased corporate liquidity

¹⁴⁰ Revised FAP Section VII.A.3.

¹⁴¹ See Nolan Testimony at 63-66 (explaining the benefit of the flexibility provided by the 20 Business Day period and the factors the ISO may consider when deciding whether to afford a participant additional time).

¹⁴² Form Guaranty, Section 9, <https://www.iso-ne.com/static-assets/documents/100013/guaranty-agreement.pdf>.

¹⁴³ Revised FAP Section VII.A.3.

¹⁴⁴ See Nolan Testimony at 65.

¹⁴⁵ Revised FAP Section VII.A.3. Per the terms of the guaranty, the ISO does not need to first recover (or attempt to recover) the amount of unpaid penalties from the defaulting participant.

¹⁴⁶ Revised FAP Section VII.A.2. The FAP Revisions also make clear that the existing FCM Delivery Financial Assurance formula applies for participants that have a CSO up to and including the end of the Capacity Commitment Period associated with the fifteenth Forward Capacity Auction. Revised FAP Section VII.A.1.

¹⁴⁷ Revised FAP Section VII.A.1.

risk.¹⁴⁸ The FAP Revisions also contain a clarifying sentence that regardless of which risk category a participant is assessed, the FCM Delivery Financial Assurance formula will be limited by the operation of the applicable stop-loss.¹⁴⁹

(i) *Medium Risk FCM Delivery Financial Assurance*

Medium risk entities will have a risk adder added to their FCM Delivery Financial Assurance calculation.¹⁵⁰ Generally, the risk adder is equal to the peak monthly stop-loss amount for that entity over the next six months adjusted by the estimated assumed performance (based on historical performance) of the resources in a participant's portfolio: the difference between the Average Balancing Ratio (ABR) and the Capacity Weighted Average Performance ratio (CWAP).¹⁵¹ Typically, this means the risk adder (roughly one month's stop-loss) is reduced to reflect the diversification benefits of a portfolio and collateralizes the non-performance risk of a multi-resource portfolio.¹⁵²

More specifically, if based on the Corporate Liquidity Assessment, an entity is assessed as "Medium Risk", it will be required to post FCM Delivery Financial Assurance according to the following formula:¹⁵³

$$[\text{DFAMW} \times \text{PE} \times \max[(\text{ABR} - \text{CWAP}), 0.1] \times \text{SF}] - \text{IMC} - \text{MCC} - \text{Peak Monthly Stop-loss} \times \max[(\text{ABR} - \text{CWAP}), 0.1]$$

Where the first portion of the formula: "DFAMW x PE x max[(ABR – CWAP), 0.1] x SF] – IMC – MCC" is the existing FCM Delivery Financial Assurance formula and the second part of the formula: "Peak Monthly Stop-loss x max[(ABR – CWAP), 0.1]" is the risk adder.¹⁵⁴ Peak Monthly Stop-loss is defined as the largest monthly stop-loss (after aggregating the stop-losses for each resource in the portfolio) for that participant that would occur during the period from the current delivery month through the following five consecutive months (including months in a future Capacity Commitment Period).¹⁵⁵ The stop-losses are calculated pursuant to the monthly

¹⁴⁸ *Id.* The "addition" of the risk adders is reflected as subtraction in the formulas because the input values will be negative.

¹⁴⁹ Revised FAP Section VII.A.1. As explained in more detail in the Nolan Testimony, this is a conforming change that was previously reflected in the formula but needed clarification once the risk adders were included. *See* Nolan Testimony at 72-74.

¹⁵⁰ Revised FAP Section VII.A.1.

¹⁵¹ *Id.*; Nolan Testimony at 68-70.

¹⁵² *Id.*

¹⁵³ Revised FAP Section VII.A.1.

¹⁵⁴ *See* Nolan Testimony at 68-70.

¹⁵⁵ Revised FAP Section VII.A.1.

stop-loss rules set forth in Section III.13.7.3.1 of Market Rule 1.¹⁵⁶ The second part of the risk adder “ $\max[(ABR - CWAP), 0.1]$ ” incorporates a concept that exists in the current FCM Delivery Financial Assurance methodology which recognizes the diversification benefits of multi-resource portfolios (based on the resources’ assumed performance given historical performance during prior CSCs) effectively reducing the risk adder.¹⁵⁷

Essentially, the risk adder requires medium risk entities to post an additional month’s stop-loss (less estimated assumed performance) upfront (and on an ongoing basis) as collateral instead of waiting for such penalties to be incurred and collateralized per the natural operation of the formula.¹⁵⁸ Requiring the amount upfront recognizes that based on the participant’s liquidity profile, being able to post incremental financial assurance once the penalty is incurred is less likely.¹⁵⁹ The risk adder concept also strikes a balance between needing to account for the increased risk that medium risk entities pose to the market but not requiring full collateralization up to the participant’s annual stop-loss upfront because such outcome would be costly for lower probability scenarios.¹⁶⁰

(ii) *High Risk FCM Delivery Financial Assurance*

High risk entities will have two risk adders added to their FCM Delivery Financial Assurance calculation.¹⁶¹ Generally, the risk adders are equal to the largest (peak) monthly stop-loss and the second largest monthly stop-loss for that entity over the next six months but, in each case, adjusted by the estimated assumed performance (based on historical performance) of the resources in a participant’s portfolio: the difference between the Average Balancing Ratio (ABR) and the Capacity Weighted Average Performance ratio (CWAP).¹⁶²

More specifically, if based on the Corporate Liquidity Assessment, an entity is assessed as “High Risk”, it will be required to post FCM Delivery Financial Assurance according to the following formula:¹⁶³

¹⁵⁶ *Id.*

¹⁵⁷ *Id.*; Nolan Testimony at 68-70. The Nolan Testimony also explains how the risk adder adjustment will affect single resource portfolios. *See* Nolan Testimony at 70.

¹⁵⁸ *See* Nolan Testimony at 68-70.

¹⁵⁹ *Id.* at 68.

¹⁶⁰ *Id.*

¹⁶¹ Revised FAP Section VII.A.1.

¹⁶² *Id.*; Nolan Testimony at 71-72.

¹⁶³ Revised FAP Section VII.A.1.

$$[\text{DFAMW} \times \text{PE} \times \max[(\text{ABR} - \text{CWAP}), 0.1] \times \text{SF}] - \text{IMC} - \text{MCC} - \text{Peak Monthly Stop-loss} \times \max[(\text{ABR} - \text{CWAP}), 0.1] - \text{Second Largest Monthly Stop-loss} \times \max[(\text{ABR} - \text{CWAP}), 0.1]$$

Where the first portion of the formula “DFAMW x PE x max[(ABR – CWAP), 0.1] x SF] – IMC – MCC” is the existing FCM Delivery Financial Assurance formula and the second part of the formula “Peak Monthly Stop-loss x max[(ABR – CWAP), 0.1] – Second Largest Monthly Stop-loss x max[(ABR – CWAP), 0.1]” are the two risk adders.¹⁶⁴ Peak Monthly Stop-loss is the same as for medium risk entities (*i.e.*, the largest monthly stop-loss over a six month period, including months in a future Capacity Commitment Period).¹⁶⁵ Second Largest Monthly Stop-loss is defined as the second largest monthly stop-loss (after aggregating the stop-losses for each resource in the portfolio) for that participant that would occur during the period from the current delivery month through the following five consecutive months (including months in a future Capacity Commitment Period).¹⁶⁶ The stop-losses are calculated pursuant to the monthly stop-loss rules set forth in Section III.13.7.3.1 of Market Rule 1.¹⁶⁷ Like the risk adder for medium risk entities, each risk adder for high risk entities (Peak-Monthly Stop-loss and Second Largest Monthly Stop-loss) also reflect the diversification benefits of multi-resource portfolios by multiplying each value by “max[(ABR – CWAP), 0.1]”.¹⁶⁸

As explained above, the risk adders reflect that because of the higher risk that high risk entities (*i.e.*, entities without adequate corporate liquidity) pose to the market, additional collateral in the form of two monthly stop-losses (less estimated assumed performance) is a reasonable precaution for the ISO to take rather than waiting for penalties to be incurred and assuming an entity without adequate corporate liquidity will be able to post such incremental amounts and/or pay its invoice.¹⁶⁹

C. Changes to Capitalization Rule for Medium and High Risk Entities

Under the current FAP, all participants are required to meet minimum capitalization thresholds or, if they are unable to do so, the participant is required to provide an additional amount of financial assurance equal to 25% of the participant’s total financial assurance requirements (excluding FTR Financial Assurance Requirements, which are subject to a separate capitalization adder).¹⁷⁰ Requiring an additional amount of financial assurance (*i.e.*, 25% percent of a

¹⁶⁴ See Nolan Testimony at 70-72.

¹⁶⁵ Revised FAP Section VII.A.1; *see also supra* pp. 21-22.

¹⁶⁶ Revised FAP Section VII.A.1.

¹⁶⁷ *Id.*

¹⁶⁸ *Id.*; *see also supra* pp. 21-22.

¹⁶⁹ See Nolan Testimony at 68; *see also supra* at p. 22.

¹⁷⁰ FAP Section II.A.4.

participant's total financial assurance requirements) from thinly capitalized entities better protects the market from the risk of default from entities with inadequate capitalization.¹⁷¹

Because the FAP Revisions have a similar goal of protecting the market, in this case, from entities with inadequate corporate liquidity to pay potential non-performance penalties, requiring medium and high risk entities to provide the 25% capitalization adder on their FCM Delivery Financial Assurance obligations (if they are subject to it) in addition to the risk adders would potentially collateralize the increased risk twice.¹⁷² Therefore, the FAP Revisions provide that for entities that are assessed as medium or high risk per the Corporate Liquidity Assessment, that also do not meet the capitalization requirements, the 25% capitalization adder will not apply to that participant's FCM Delivery Financial Assurance.¹⁷³ In other words, if a participant is subject to the 25% additional financial assurance under the capitalization provisions, FCM Delivery Financial Assurance requirements will be subtracted from the participant's total financial assurance amount before applying the 25% capitalization rule.¹⁷⁴

D. Changes to Collateralize Intra-month Penalties Resulting from CSCs

As explained in greater detail in the Nolan testimony, the FAP Revisions make improvements to the IMC variable (that exists in the current FCM Delivery Financial Assurance formula) to avoid situations where the formula requires an amount through operation of the IMC formula in the current month, but a portion of such amount will automatically be returned to the participant the following month.¹⁷⁵ In other words, the IMC adjustments contained in the FAP Revisions avoid an unnecessary collateral "spike."¹⁷⁶

Currently, the IMC variable calculates the full amount of non-performance penalties incurred within a current month ("Month A"), but regardless of potential additional CSCs, there are situations where a portion of the maximum amount of monthly non-performance penalty will be returned the following month ("Month B") based on the full calculation of the participant's FCM Delivery Financial Assurance.¹⁷⁷ This is because once the new month starts (Month B), the full amount of the penalty that was previously captured by the IMC variable will roll into the MCC variable (which collateralizes all penalties incurred in the prior month) and the IMC will return to

¹⁷¹ Docket ER15-593-000; *see also* Nolan Testimony at 76-77.

¹⁷² *See* Nolan Testimony at 76-78.

¹⁷³ Revised FAP Section II.A.4(c). Because the Corporate Liquidity Assessment and resulting collateral adjustments will only apply to CSOs for the 2025 - 2026 Capacity Commitment Period and after, the capitalization revisions also make clear that excluding FCM Delivery Financial Assurance from the 25% capitalization adder only applies beginning with the 2025 - 2026 Capacity Commitment Period. *Id.*

¹⁷⁴ *Id.*; Nolan Testimony at 76-78.

¹⁷⁵ *See* Nolan Testimony at 79-80.

¹⁷⁶ *Id.*

¹⁷⁷ *Id.*; FAP Section VII.A.

\$0 (until a new CSC occurs).¹⁷⁸ If, for example, Month B is a month with a lower scaling factor and therefore would require less financial assurance, the ISO could return such amount (if requested) to the participant as soon as the calculation updates.¹⁷⁹ Therefore, it's unnecessary to keep such excess amount until it is returned at the start of a new month.¹⁸⁰ As the example in the Nolan testimony illustrates, with the IMC update contained in the FAP Revisions, the ISO remains collateralized for the full amount of incurred non-performance penalties and avoids unnecessary collateral swings.¹⁸¹ The FAP Revisions accomplish this by stating that the IMC is limited by the difference (not less than zero) between the minimum applicable stop loss and the amount of additional FCM Delivery Financial Assurance when considering the participant's current month obligation compared to the next month FCM Delivery Financial Assurance obligation (without giving effect to the IMC or MCC variables).¹⁸²

E. Clean-Up Revisions

The FAP Revisions also include updates to the FAP Table of Contents to reflect the new sections that were added for the FCM Delivery Financial Assurance Calculation, the Corporate Liquidity Assessment Methodology, and FCM Affiliate Guaranties.¹⁸³

V. STAKEHOLDER PROCESS

The FAP Revisions were reviewed and considered through the complete New England Power Pool ("NEPOOL") Participant Processes.¹⁸⁴

The ISO introduced the high-level concept of the FAP Revisions at the September 26, 2023 NEPOOL Budget and Finance Subcommittee ("B&F Subcommittee") meeting, followed by discussions at the January 24, 2024, February 9, 2024, March 26, 2024, April 24, 2024, May 10, 2024, June 11, 2024 (a joint meeting with the NEPOOL Markets Committee), and July 29, 2024 meetings. Although the B&F Subcommittee is a non-voting entity, at its July 29, 2024 meeting, some members expressed support for the ISO's overall proposal, while many others voiced a preference for alternative approaches.

Some participants, including members of the New England Power Generators Association ("NEPGA"), proposed conceptual amendments related to the FAP Revisions, including allowing a longer time to pay off non-performance penalties, having the Corporate Liquidity Assessment

¹⁷⁸ See Nolan Testimony at 79-80.

¹⁷⁹ *Id.*

¹⁸⁰ *Id.*

¹⁸¹ *Id.*

¹⁸² Revised FAP Section VII.A.1.

¹⁸³ Revised FAP, Table of Contents.

¹⁸⁴ Participant Processes has the meaning given in Section 7.1.1 of the Participants Agreement..

and the resulting collateral adjustments apply beginning with the 2028 – 2029 Capacity Commitment Period (*i.e.*, associated with the nineteenth Forward Capacity Auction), and changing the submission deadline for participants to submit a Capacity Supply Obligation Bilateral. As discussed below, the latter two amendments were formally considered and voted upon by the NEPOOL Participants Committee at its September 5, 2024 meeting.

The Capacity Supply Obligation Bilateral amendment proposed to amend Market Rule 1 to recognize Capacity Supply Obligation Bilateral trades closer in time to when they are executed. Because the amendment concerned proposed changes to the Tariff (not the financial assurance rules contained in the FAP), the Markets Committee reviewed and discussed the Capacity Supply Obligation Bilateral amendment at its June 11, 2024 (as part of a joint meeting with the B&F Subcommittee), July 9, 2024, and August 6, 2024 meetings. Ultimately, at its August meeting, the Markets Committee took an advisory vote on the NEPGA-sponsored proposal, which failed to pass, with a 50% vote in favor.¹⁸⁵

Final action on the FAP Revisions, as well as NEPGA's two amendments (regarding Capacity Supply Obligation Bilateral trades and the implementation date), occurred at the September 5, 2024 NEPOOL Participants Committee meeting. The NEPOOL Participants Committee's vote to support the Capacity Supply Obligation Bilateral amendment failed, with a vote of 53.47% in favor, as did the amendment to extend the FAP Revisions effective date to June 1, 2028, with a vote of 47.78% in favor. Concerning the overall FAP Revisions package, the NEPOOL Participants Committee failed to approve the ISO's proposal filed herein, with a 62.5% vote in favor (below the required 66.67% vote threshold needed to approve the FAP Revisions).¹⁸⁶

As explained in the Nolan Testimony, the ISO was unable to support any of the stakeholder amendments as they did not fundamentally address the risk that entities without adequate corporate liquidity pose to the New England Markets.¹⁸⁷ However, throughout the process, the ISO listened

¹⁸⁵ The Sector vote breakdown at the NEPOOL Markets Committee was as follows: Generation Sector (16.67% in favor, 0% opposed, two abstentions); Transmission Sector (0% in favor, 16.67% not in favor, five abstentions); Supplier Sector (16.67% in favor, 0% opposed, six abstentions); Publicly Owned Entity Sector (0% in favor, 16.67% opposed, 0 abstentions); Alternative Resources Sector (16.67% in favor, 0% opposed, two abstentions); and End User Sector (0% in favor, 16.67% not in favor, seven abstentions).

¹⁸⁶ Results of the voting outcomes can be found in the NEPOOL Notice of Actions (Sept. 6, 2024), available at <https://www.iso-ne.com/static-assets/documents/100015/npc-noa-20240905.pdf>.

¹⁸⁷ See Nolan Testimony at 31-34; *see also* ISO New England, Inc., Memorandum to NEPOOL Participants Committee, ISO's Updates Financial Assurance Policy to Mitigate Risk of Pay-for-Performance Penalty Payment Defaults, p. 384 of PDF materials (Aug. 21, 2024), available at <https://www.iso-ne.com/static-assets/documents/100015/npc-2024-09-05-composite3.pdf> (explaining risks requiring the need for the FAP Revisions); ISO New England, Inc., Memorandum to NEPOOL Markets Committee, Concerns with NEPGA's CSO Bilateral and Monthly Reconfiguration Auction Proposals (Aug. 6, 2024); available at https://www.iso-ne.com/static-assets/documents/100014/a00_mc_2024_08_06_nepga_amendments_response.pdf (explaining ISO position on NEPGA amendments and that such amendments do not address the financial risk that the FAP Revisions address).

to stakeholder feedback on a range of issues regarding the FAP Revisions, and the ISO made modifications to several aspects of its proposal in response to stakeholder feedback. For example, the ISO added an additional Corporate Liquidity Assessment category (to avoid a pass/fail outcome); the ISO revised the risk adders to incorporate diversification benefits for multi-resource portfolios; and made adjustments to the “Available Corporate Liquidity” calculation to include excess collateral.¹⁸⁸

In light of the Participants Committee’s vote, the ISO is separately proceeding with the FAP Revisions filing pursuant to Section 11.1.4 of the Participants Agreement.¹⁸⁹

VI. REQUESTED EFFECTIVE DATE

The ISO requests an effective date of February 1, 2025 for the proposed FAP changes instituting prospective improvements through a Corporate Liquidity Assessment and changes to the methodology for calculating FCM Delivery Financial Assurance based on such assessment. Further, we respectfully request an order from the Commission no later than the effective date.

Under the terms of the FAP Revisions, improvements to the inter-month collateral (IMC) variable in the FCM Delivery Financial Assurance formula will be implemented as of February 1, 2025, the effective date.¹⁹⁰ As explained above, in February 2024, the Commission accepted the ISO’s inclusion of a new variable input, the IMC, into its FCM Delivery Financial Assurance formula.¹⁹¹ The IMC improvements included within this filing reflect further refinements to that input calculation for its continued use.¹⁹² No prior IMC calculations will be changed.¹⁹³

The remainder of the FAP Revisions (*i.e.*, the Corporate Liquidity Assessment and associated changes to the calculation of a capacity seller’s FCM Delivery Financial Assurance

¹⁸⁸ See ISO New England, Inc., Pay-for-Performance Financial Assurance, Discussions of Financial Assurance Policy Regarding Pay-for-Performance Penalties and Further Redlines to the FAP, at Slide 8 (July 29, 2024); available at https://www.iso-ne.com/static-assets/documents/100013/pay_for_performance_fa_updated_07_22_2024.pdf (summarizing responses to stakeholder feedback).

¹⁸⁹ NEPOOL has informed the ISO that it will file comments in this proceeding to provide additional details regarding the various conceptual amendments and explanation of the stakeholder processes to consider the FAP Revisions.

¹⁹⁰ See Revised FAP Section VII.A.1 (including IMC variable updates in the definition of IMC, included in the base formula that is currently effective).

¹⁹¹ See *supra* at pp. 4-5; note 23.

¹⁹² See *supra* at pp. 24-25.

¹⁹³ The IMC variable calculates based on CSCs happening within a month and then, by natural operation of the formula, the amounts roll into the MCC variable at the start of a new month. Therefore, the IMC changes would not affect any prior IMC calculations. Once approved, the IMC changes will only apply to CSC events that happen from the effective date and forward.

obligation based on such assessment) will have a June 1, 2025 initiation date.¹⁹⁴ In taking this staged approach, the ISO is ensuring that its updated credit review and financial assurance assessments align with the start of a new Capacity Commitment Period.

The primary focus of the FAP Revisions is to ensure its financial assurance program includes sufficient credit review procedures and financial assurance to address the higher nonpayment risk posed by capacity sellers with inadequate corporate liquidity risk profiles when compared against their maximum potential penalty payment obligation during the applicable Capacity Commitment Period.¹⁹⁵ The financial assurance program is an independent element of the ISO's operations, which is implemented in accordance with the FAP, as detailed in the Tariff in Section I, Exhibit IA. Through its financial assurance program, the ISO focuses on credit review procedures, security posting requirements for market activities, measures to avoid the possibility of a participant's failures to pay amounts owed under the Tariff, and addressing nonpayment events.¹⁹⁶ As such, the ISO's financial assurance measures account for, but do not alter, market outcomes. Instead, the ISO's proposed credit review and financial security posting requirements incorporate a participant's current and prospective obligations within relevant markets in order to assess the ongoing creditworthiness of participants, the ability of the participants to meet Tariff payment obligations (including non-performance penalties), and to ensure that the ISO has recourse for nonpayment.

The ISO has worked to ensure the prospective application of the improvements to its financial assurance requirements that are included within the FAP Revisions. Specifically, the following implementation framework is reflected in the FAP Revisions:

- There are no modifications to the existing Non-Commercial Capacity financial assurance requirements (*i.e.*, the FCM financial assurance obligations required to participate in an auction and prior to the start of a Capacity Commitment Period related to capacity that is not yet commercial), which change as the Capacity Commitment Period approaches and are distinct from the calculation of the FCM Delivery Financial Assurance requirements which are tied to the delivery obligations of a capacity seller for a Capacity Commitment Period and are the subject of the FAP Revisions;¹⁹⁷

¹⁹⁴ See Revised FAP Sections VII.A.2 (implementation of the Corporate Liquidity Assessment coincident to the initiation of the 2025 - 2026 Capacity Commitment Period) and VII.A.1 (application of the revised calculation for the FCM Delivery Financial Assurance upon the June 1 commencement of the 2025 - 2026 Capacity Commitment Period).

¹⁹⁵ See Nolan Testimony, at 3-6.

¹⁹⁶ See FAP Overview.

¹⁹⁷ See FAP Sections VII.B (Non-Commercial Capacity requirements) and VII.A (FCM Delivery Financial Assurance requirements). In addition to non-performance penalties, capacity sellers offering Non-Commercial Capacity into a Forward Capacity Auction must post a security deposit equal to \$2/kW of its qualified, Non-Commercial Capacity. FAP Sections VII.B.

- The ISO proposes to prospectively implement its improvements to the IMC input of the FCM Delivery Financial Assurance calculation formula as of the proposed February 1, 2025 effective date;
- The existing FCM Delivery Financial Assurance calculation formula is applicable through the remainder of the 2024 - 2025 Capacity Commitment Period (coincident to the completion of the CSOs related to the fifteenth Forward Capacity Auction);¹⁹⁸
- The new Corporate Liquidity Assessment and FCM Delivery Financial Assurance calculation methodology will apply as of June 1, 2025 for the 2025 - 2026 Capacity Commitment Period;¹⁹⁹ and
- Beginning on June 1, 2025, the ISO will prospectively track a market participant's exposure to non-performance penalties on a rolling six-month basis (including the current month).²⁰⁰

This structure ensures prospective application of the FAP Revisions. Adoption of the requested February 1, 2025 effective date, with a later initiation (June 1, 2025) of the new Corporate Liquidity Assessment and calculation methodology for a capacity seller's financial assurance requirements for the 2025 - 2026 Capacity Commitment Period, is compliant with the filed rate doctrine and does not constitute a retroactive rate change. As an initial matter, the FAP Revisions do not change the Tariff provisions governing the Forward Capacity Auction or the PFP program. Simply, there are *no* changes proposed to the filed rate (*i.e.*, the Tariff) with respect to running of the Forward Capacity Auction, settlement of initial and reconfiguration auction prices, performance obligations for entities holding a CSO within a Capacity Commitment Period, declarations of Capacity Shortage Conditions, or the assessment of non-performance penalties (including the rate for calculation of such penalties). All of these elements remain separately governed and administered through their existing Tariff provisions. Moreover, even in the event that the Commission were to consider the FAP Revisions as modifying the Tariff rules governing implementation of the Forward Capacity Auction or the PFP terms, the requested effective date, including initiation of the Corporate Liquidity Assessment and revised calculation of financial assurance obligations based on such assessment (as of June 1, 2025), remains a prospective change and therefore compliant with the filed rate doctrine and rule against retroactive ratemaking.²⁰¹

¹⁹⁸ See Revised FAP Section VII.A.1 (clarifying that the current formula for calculating the FCM Delivery Financial Assurance will apply through the completion of the 2024 - 2025 Capacity Commitment Period).

¹⁹⁹ *Id.*

²⁰⁰ Revised FAP Section VII.A.2.

²⁰¹ See, e.g., *ISO New England*, 165 FERC ¶ 21,266 at P 24 (“[T]he Commission has previously found that the terms and conditions of performance and other obligations that are a part of forward capacity markets may be revised, even after a forward auction for a future delivery year is completed, if the changes are made prospectively.”) and *ISO New England Inc. and New England Power Pool*, 145 FERC ¶ 61,095 at PP 28–31 (2013)

To the extent that a filed rate/retroactivity question arises, this filing proposes only prospective changes to the ISO's FAP under the Tariff, Section I, Exhibit IA. In the recent Third Circuit decision in *PJM Providers Group v. FERC et al.*,²⁰² the appellate court ruled that a prohibited retroactive rate change to an existing filed rate had occurred through PJM's mid-auction change in the calculation of a bounding auction input (the "LDA Reliability Requirement") after an initial calculation of this input had been completed and posted in accordance with PJM's capacity auction rules.²⁰³ In its retroactivity analysis, the court focused upon whether the initial calculation and posting of the LDA Reliability Requirement (the past action) obligated use of the posted LDA Reliability Requirement in the running of the auction (the legal consequence). Finding a clear relationship between the past action (calculation and posting of the LDA Reliability Requirement) and the legal consequence (mandated use of the posted LDA Reliability Requirement as an input to the in-progress auction), the court held that PJM's post-posting, recalculation and use of a revised LDA Reliability Requirement constituted a prohibited retroactive rate change.²⁰⁴

In contrast to the retroactive mid-auction changes rejected in *PJM Power Providers Group*, the FAP Revisions do not alter prior credit reviews or supplant previously calculated inputs into the formula for the FCM Delivery Financial Assurance requirement. First, as explained above, the changes to the IMC input calculations will be prospectively implemented as of February 1, 2025, with no changes to prior IMC calculations.

Second, a similar prospective implementation structure is in place for the changes to the FCM Delivery Financial Assurance methodology and initiation of the Corporate Liquidity Assessment. Currently, a capacity seller has no FCM Delivery Financial Assurance requirements for the 2025 - 2026 Capacity Commitment Period and the ISO explicitly retains the current methodology for the FCM Delivery Financial Assurance requirement through the May 31, 2025 completion of the current 2024 - 2025 Capacity Commitment Period.²⁰⁵ In other words, the ISO will not apply its Corporate Liquidity Assessment (and resulting collateral adjustments) to capacity sellers until the June 1 initiation of the 2025 - 2026 Capacity Commitment Period.²⁰⁶ Therefore, applying the *PJM Power Providers* framework, the legal consequences of the past action--initiation of the FCM Delivery Financial Assurance requirement for the capacity seller's CSO during the 2024 - 2025 Capacity Commitment Period--are maintained. Simply, the Corporate Liquidity Assessment and corresponding FCM Delivery Financial Assurance calculation changes

(holding that a change in the definition of a Shortage Event for operating reserves was not retroactive because of its prospective application solely to future designation of Shortage Events).

²⁰² [*PJM Power Providers v. FERC*, 96 F.4th 390 \(3rd Cir. 2024\).](#)

²⁰³ *Id.* at 399-400.

²⁰⁴ *Id.*

²⁰⁵ Revised FAP Section VII.A.1.

²⁰⁶ Revised FAP Section VII.A.

are not applied to the capacity seller's current financial assurance requirements for the 2024 - 2025 Capacity Commitment Period. Instead, the updated financial assurance requirements and credit review procedures will be prospectively implemented with the June 1, 2025 initiation of a capacity seller's new CSO²⁰⁷ and PFP obligations²⁰⁸ for the upcoming 2025 - 2026 Capacity Commitment Period. Through this approach, the legally required line has been drawn to ensure a prospective-only implementation of financial assurance requirements under the FAP Revisions in accordance with the filed rate doctrine and rule against retroactive ratemaking.

In addition to complying with the filed rate doctrine, implementation of the Corporate Liquidity Assessment and revised calculation of the FCM Delivery Financial Assurance as of the June 1, 2025 (start of the 2025 - 2026 Capacity Commitment Period) will realize significant benefits through reduction of risk exposure to nonpayment of non-performance penalties. As detailed in Mr. Nolan's testimony, a recent ISO credit risk evaluation of the upcoming 2025 - 2026 Capacity Commitment Period identified significant risks of nonpayment of non-performance penalties due to the high level of current capacity sellers with inadequate corporate liquidity.²⁰⁹ As Mr. Nolan explains, PFP obligations are not segregated from other market settlements.²¹⁰ This structure means that "nonpayment of a non-performance penalty has the potential to affect the New England Markets and impacts participants in various sectors (*i.e.*, not just other FCM participants or capacity sellers)."²¹¹ Currently this nonpayment risk is effectively borne by the entire market pool, including for the 2024 - 2025 Capacity Commitment Period. Recognizing this risk, and respecting the filed rate doctrine, the ISO has proposed an appropriate and legally compliant implementation of its revised credit review procedures and PFP-related financial assurance requirements related to payment of non-performance penalties, effective upon the June 1, 2025 initiation of the upcoming 2025 - 2026 Capacity Commitment Period. We respectfully request that the Commission authorize the requested February 1, 2025 effective date for the FAP Revisions, which will institute a staged implementation of the IMC input improvements (February 1, 2025) and the Corporate Liquidity Assessments and related changes to the FCM Delivery Financial Assurance calculations (June 1, 2025).

²⁰⁷ While most capacity sellers initially acquire their obligations in the initial auction, they have the right to participate in the annual reconfiguration auctions, through which their CSO for the relevant Capacity Commitment Period can be increased through clearing of additional capacity supply bids or the release of some or all of their previously acquired capacity supply commitments. *See generally*, Tariff Sections III.13.7.3.1.

²⁰⁸ *See* Tariff, Section III.13.7.2 (setting rules for capacity performance and non-performance penalties within the annual Capacity Commitment Period).

²⁰⁹ *See* Nolan Testimony at 13-15.

²¹⁰ *See id.* at 15-18.

²¹¹ *Id.* at 16.

VII. ADDITIONAL SUPPORTING INFORMATION

Section 35.13 of the Commission's regulations generally requires public utilities to file certain cost and other information related to an examination of traditional cost-of-service rates. However, the FAP Revisions are not a traditional "rate," and the ISO is not a traditional investor-owned utility. In light of these circumstances, the ISO submits the following additional information in substantial compliance with relevant provisions of Section 35.13, and request a waiver of Section 35.13 of the Commission's regulations to the extent the content or form deviates from the specific technical requirements of the regulations.

35.13(b)(1) – Materials included herewith are as follows:

- ♦ this transmittal letter;
- ♦ marked sections of the Tariff reflecting the FAP Revisions;
- ♦ clean sections of the Tariff reflecting the FAP Revisions;
- ♦ the Nolan Testimony;
- ♦ a list of the governors, utility regulatory agencies in Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont, and other entities, to which a copy of this filing is being sent electronically.

35.13(b)(2) – As noted above, the ISO, requests that the FAP Revisions become effective on February 1, 2025.

35.13(b)(3) – Pursuant to Section 17.11(e) of the Participants Agreement, Governance Participants are being served electronically rather than by paper copy. The names and addresses of the Governance Participants are posted on the ISO's website at <https://www.iso-ne.com/participate/participant-asset-listings/directory?id=1&type=committee>. An electronic copy of this transmittal letter and the accompanying materials has also been sent to the governors and electric utility regulatory agencies for the six New England states which comprise the New England Control Area, and to the New England Conference of Public Utility Commissioners, Inc. Their names and addresses are shown in the attached listing. In accordance with Commission rules and practice, there is no need for the Governance Participants or the entities identified in the listing to be included on the Commission's official service list in the captioned proceeding unless such entities become intervenors in this proceeding.

35.13(b)(4) – A description of the materials submitted pursuant to this filing is contained in Section VII of this transmittal letter.

35.13(b)(5) – The reasons for this filing are discussed in Sections III and IV of this transmittal letter and in the Nolan Testimony.

35.13(b)(6) – The ISO’s approval of the FAP Revisions is evidenced by this filing. As noted in Section V of this transmittal letter NEPOOL did not support the FAP Revisions but this filing reflects the results of the Participants Process required by the Participants Agreement.

35.13(b)(7) – The ISO has no knowledge of any relevant expenses or costs of service that have been alleged or judged in any administrative or judicial proceeding to be illegal, duplicative, or unnecessary costs that are demonstrably the product of discriminatory employment practices.

35.13(b)(8) – A form of notice and electronic media are no longer required for filings in light of the Commission’s Combined Notice of Filings notice methodology.

35.13(c)(1) – The FAP Revisions herein do not modify a traditional “rate.” The statement required under this Commission regulation is not applicable to this filing.

35.13(c)(2) – The ISO does not provide services under other rate schedules that are similar to the wholesale, resale and transmission services it provides under the Tariff.

35.13(c)(3) – No specifically assignable facilities have been or will be installed or modified in connection with the revision submitted herein.

VIII. CONCLUSION

For the reasons stated herein, the ISO respectfully requests that the Commission accept the FAP Revisions as filed, without condition, suspension, or hearing, to be effective February 1, 2025.

Respectfully submitted,

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EXHIBIT IA

ISO NEW ENGLAND FINANCIAL ASSURANCE POLICY

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DISCLOSURE FORM

EXHIBIT IA
ISO NEW ENGLAND FINANCIAL ASSURANCE POLICY

Overview

The procedures and requirements set forth in this ISO New England Financial Assurance Policy shall govern all Applicants, all Market Participants and all Non-Market Participant Transmission Customers. Capitalized terms used in the ISO New England Financial Assurance Policy shall have the meaning specified in Section I.

The purpose of the ISO New England Financial Assurance Policy is (i) to establish minimum criteria for participation in the New England Markets; (ii) to establish a financial assurance policy for Market Participants and Non-Market Participant Transmission Customers that includes commercially reasonable credit review procedures to assess the financial ability of an Applicant, a Market Participant or a Non-Market Participant Transmission Customer to pay for service transactions under the Tariff and to pay its share of the ISO expenses, including amounts under Section IV of the Tariff, and including any applicable Participant Expenses; (iii) to set forth the requirements for alternative forms of security that will be deemed acceptable to the ISO and consistent with commercial practices established by the Uniform Commercial Code that protect the ISO and the Market Participants against the risk of non-payment by other, defaulting Market Participants or by Non-Market Participant Transmission Customers; (iv) to set forth the conditions under which the ISO will conduct business in a nondiscriminatory way so as to avoid the possibility of failure of payment for services rendered under the Tariff; and (v) to collect amounts past due, to collect amounts payable upon billing adjustments, to make up shortfalls in payments, to suspend Market Participants and Non-Market Participant Transmission Customers that fail to comply with the terms of the ISO New England Financial Assurance Policy, to terminate the membership of defaulting Market Participants and to terminate service to defaulting Non-Market Participant Transmission Customers.

I. GROUPS REGARDED AS SINGLE MARKET PARTICIPANTS

In the case of a group of Entities that are treated as a single Market Participant pursuant to Section 4.1 of the Second Restated NEPOOL Agreement (the “RNA”), the group members shall be deemed to have elected to be jointly and severally liable for all debts to Market Participants, PTOs, Non-Market Participant Transmission Customers, NEPOOL and the ISO of any of the group members. For the purposes of the ISO New England Financial Assurance Policy, the term “Market Participant” shall, in the case of a group of members that are treated as a single Market Participant pursuant to Section 4.1 of the RNA, be deemed to refer to the group of members as a whole, and any financial assurance provided

under the ISO New England Financial Assurance Policy will be credited to the account of the group member with the customer identification at the ISO.

II. MARKET PARTICIPANTS' REVIEW AND CREDIT LIMITS

Solely for purposes of the ISO New England Financial Assurance Policy: a "Municipal Market Participant" is any Market Participant that is either (a) a Publicly Owned Entity except for an electric cooperative or an organization including one or more electric cooperatives as used in Section 1 of the RNA or (b) a municipality, an agency thereof, a body politic or a public corporation (i) that is created under the authority of any state or province that is adjacent to one of the New England states, (ii) that is authorized to own, lease and operate electric generation, transmission or distribution facilities and (iii) that has been approved for treatment as a Municipal Market Participant by the ISO after consultation with the NEPOOL Budget and Finance Subcommittee. Market Participants that are not Municipal Market Participants are referred to as "Non-Municipal Market Participants."

A. Minimum Criteria for Market Participation

Any entity participating or seeking to participate in the New England Markets shall comply with the requirements of this Section II.A. For purposes of this Section II.A, the term "customer" shall refer to both Market Participants and Non-Market Participant Transmission Customers and the word "applicant" shall refer to both applicants for Market Participant status and applicants for transmission service from the ISO.

1. Information Disclosure

- (a) Each customer and applicant, on an annual basis (by April 30 each year) shall submit a completed information form in the form of (with only minor, non-material changes) and with the information required by Attachment 6 to the ISO New England Financial Assurance Policy. Customer or applicant shall not be required to disclose information required by Attachment 6 if such disclosure is prohibited by law; provided, however, if the disclosure of any information required by Attachment 6 is prohibited by law, then customer or applicant shall use reasonable efforts to obtain permission to make such disclosure. This information shall be treated as Confidential Information, but its disclosure pursuant to subsection (b) below is expressly permitted in accordance with the terms of the ISO New England Information Policy. Customers and applicants may satisfy the requirements above by providing the ISO with filings made to the Securities

and Exchange Commission or other similar regulatory agencies that include substantially similar information to that required above, provided, however, that the customer or applicant must clearly indicate where the specific information is located in those filings. An applicant that fails to provide this information will be prohibited from participating in the New England Markets until the deficiency is rectified. If a customer fails to provide this information by end of business on April 30, then the ISO shall issue a notice of such failure to the customer on the next Business Day and, if the customer does not provide the information to the ISO within 5 Business Days after issuance of such notice, then the customer will be suspended as described in Section III.B.3 of the ISO New England Financial Assurance Policy until the deficiency is rectified.

- (b) The ISO will review the information provided pursuant to subsection (a) above, and will also review whether the customer or applicant or any of the Principals of the customer or applicant are included on any relevant list maintained by the U.S. Office of Foreign Asset Control. If, after review of the information provided pursuant to subsection (a) above or any other information disclosed pursuant to this Section II, the ISO in its sole discretion requires additional information to make its analysis under this subsection (b), the ISO may require additional information from the customer or applicant. If, based on these reviews, the ISO determines that the commencement or continued participation of such customer or applicant in the New England Markets may present an unreasonable risk to those markets or its Market Participants, the Chief Financial Officer of the ISO shall promptly forward to the Participants Committee or its delegate, for its input, such concerns, together with such background materials deemed by the ISO to be necessary for the Participants Committee or its delegate to develop an informed opinion with respect to the identified concerns, including any measures that the ISO may recommend imposing as a condition to the commencement or continued participation in the markets by such customer or applicant (including suspension) or the ISO's recommendation to prohibit or terminate participation by the customer or applicant in the New England Markets. The ISO shall consider the input of the Participants Committee or its delegate before taking any action to address the identified concerns. If the ISO chooses to impose measures other than prohibition (in the case of an applicant) or termination (in the case of a customer) of participation in the New England Markets, then the ISO shall be required to make an informational filing with the Commission as soon as reasonably practicable after taking such action. If the ISO chooses to prohibit (in the case of an applicant) or

terminate (in the case of a customer) participation in the New England Markets, then the ISO must file for Commission approval of such action, and the prohibition or termination shall become effective only upon final Commission ruling. No action by the ISO pursuant to this subsection (b) shall limit in any way the ISO's rights or authority under any other provisions of the ISO New England Financial Assurance Policy or the ISO New England Billing Policy.

2. Risk Management

- (a) Each customer and applicant shall submit, on an annual basis (by April 30 each year), a certificate in the form of Attachment 3 to the ISO New England Financial Assurance Policy stating that the customer or applicant has: (i) either established or contracted for risk management procedures that are applicable to participation in the New England Markets; and (ii) has established or contracted for appropriate training of relevant personnel that is applicable to its participation in the New England Markets. The certificate must be signed on behalf of the customer or applicant by a Senior Officer of the customer or applicant. An applicant that fails to provide this certificate will be prohibited from participating in the New England Markets until the deficiency is rectified. If a customer fails to provide this certificate by end of business on April 30, then the ISO shall issue a notice of such failure to the customer on the next Business Day and, if the customer does not provide the certificate to the ISO within 5 Business Days after issuance of such notice, then the customer will be suspended as described in Section III.B.3 of the ISO New England Financial Assurance Policy until the deficiency is rectified.
- (b) Each applicant prior to commencing activity in the FTR market shall submit to the ISO or its designee the written risk management policies, procedures, and controls, including, if requested by the ISO in its sole discretion, supporting documentation (which may include an organizational chart (or portion thereof) or equivalent information) that demonstrates the segregation of duties within such risk policies, procedures, and controls of the such customer or applicant, applicable to its participation in the FTR market relied upon by the Senior Officer of the applicant signing the certificate provided pursuant to Section II.A.2
 - (a). On an annual basis (by April 30 each year), each Designated FTR Participant with FTR transactions in any of the previous twelve months or in any currently open month

that exceed 1,000 MW per month (on a net basis, as described in the FTR Financial Assurance Requirements provisions in Section VI) shall submit to the ISO or its designee a certificate in the form of Attachment 5 to the ISO New England Financial Assurance Policy stating that, since the customer's delivery of its risk management policies, procedures, and controls (and any supporting documentation, if applicable) or its last certificate pursuant to this Section II.A.2(b), the customer either: (i) has not made any changes to the previously submitted written risk management policies, procedures, and controls (and any supporting documentation, if applicable); or (ii) that changes have been made to the previously submitted written risk management policies, procedures, and controls (and any supporting documentation, if applicable) and that all such changes are clearly identified and attached to such certificate. If any such applicant fails to submit the relevant written policies, procedures, and controls, then the applicant will be prohibited from participating in the FTR market. If any such customer fails to provide a certificate in the form of Attachment 5 by end of business on April 30, then the ISO shall issue a notice of such failure to the customer, and if the customer does not provide the certificate to the ISO within two Business Days after issuance of such notice, then the customer will be suspended (as described in Section III.B.3.c of the ISO New England Financial Assurance Policy) from entering into any future transactions in the FTR system.

The ISO, at its sole discretion, may also require any applicant or customer to submit to the ISO or its designee the written risk management policies, procedures, and controls, including supporting documentation (which may include an organizational chart (or portion thereof) or equivalent information) that demonstrates the segregation of duties within such risk policies, procedures, and controls of the such customer or applicant, that are applicable to its participation in the New England Markets relied upon by the Senior Officer of the applicant or customer signing the certificate provided pursuant to Section II.A.2(a). The ISO may require such submissions based on identified risk factors that include, but are not limited to, the markets in which the customer is transacting or the applicant seeks to transact, the magnitude of the customer's transactions or the applicant's potential transactions, or the volume of the customer's open positions. Where the ISO notifies an applicant or customer that such a submission is required, the submission shall be due within 5 Business Days of the notice. If an applicant fails to submit the relevant written policies, procedures, and controls as required, then the applicant will be prohibited from participating in the New England Markets. If a

customer fails to submit the relevant written policies, procedures, and controls, then the ISO shall issue a notice of such failure to the customer, and if the customer fails to submit the relevant written policies, procedures, and controls to the ISO or its designee within two Business Days after issuance of such notice, then the customer will be suspended (as described in Section III.B of the ISO New England Financial Assurance Policy).

The applicant's or customer's written policies, procedures, controls, and any supporting documentation, received by the ISO or its designee pursuant to this subsection (b) shall be treated as Confidential Information.

- (c) Where an applicant or customer submits risk management policies, procedures, and controls, or supporting documentation to the ISO or its designee pursuant to any provision of subsection (b) above, the ISO or its designee shall assess that those policies, procedures, and controls conform to prudent risk management practices, which include, but are not limited to: (i) addressing market, credit, and operational risk; (ii) segregating roles, responsibilities, and functions in the organization; (iii) establishing delegations of authority that specify which transactions traders are authorized to enter into; (iv) ensuring that traders have sufficient training in systems and the markets in which they transact; (v) placing risk limits to control exposure; (vi) requiring reports to ensure that risks are adequately communicated throughout the organization; (vii) establishing processes for independent confirmation of executed transactions; and (viii) establishing periodic valuation or mark-to-market of risk positions as appropriate.

Where, as a result of the assessment described above in this subsection (c), the ISO or its designee believes that the applicant's or customer's written policies, procedures, and controls do not conform to prudent risk management practices, then the ISO or its designee shall provide notice to the applicant or customer explaining the deficiencies. The applicant or customer shall revise its policies, procedures, and controls to address the deficiencies within 55 days after issuance of such notice. (If April 30 falls within that 55 day window, the ISO may choose not to require a separate submission on April 30 as described in subsection (b) above.) If an applicant's revised written policies, procedures, and controls do not adequately address the deficiencies identified in the notice, then the applicant will be prohibited from participating in the New England Markets. If a customer's revised written policies, procedures, and controls do not adequately address

the deficiencies identified in the notice, then the customer will be suspended (as described in Section III.B of the ISO New England Financial Assurance Policy).

3. Communications

Each customer and applicant shall submit, on an annual basis (by April 30 each year), a certificate in the form of Attachment 3 to the ISO New England Financial Assurance Policy stating that the customer or applicant has either established or contracted to establish procedures to effectively communicate with and respond to the ISO with respect to matters relating to the ISO New England Financial Assurance Policy and the ISO New England Billing Policy. Such procedures must ensure, at a minimum, that at least one person with the ability and authority to address matters related to the ISO New England Financial Assurance Policy and the ISO New England Billing Policy on behalf of the customer or applicant, including the ability and authority to respond to requests for information and to arrange for additional financial assurance as necessary, is available from 9:00 a.m. to 5:00 p.m. Eastern Time on Business Days. Such procedures must also ensure that the ISO is kept informed about the current contact information (including phone numbers and e-mail addresses) for the person or people described above. The certificate must be signed on behalf of the customer or applicant by a Senior Officer of the customer or applicant. An applicant that fails to provide this certificate will be prohibited from participating in the New England Markets until the deficiency is rectified. If a customer fails to provide this certificate by end of business on April 30, then the ISO shall issue a notice of such failure to the customer on the next Business Day and, if the customer does not provide the certificate to the ISO within 5 Business Days after issuance of such notice, then the customer will be suspended as described in Section III.B.3 of the ISO New England Financial Assurance Policy until the deficiency is rectified.

4. Capitalization

- (a) To be deemed as meeting the capitalization requirements, a customer or applicant shall either:
 - (i) be Rated and have a Governing Rating that is an Investment Grade Rating of BBB-/Baa3 or higher;
 - (ii) maintain a minimum Tangible Net Worth of one million dollars; or

- (iii) maintain a minimum of ten million dollars in total assets, provided that, to meet this requirement, a customer or applicant may supplement total assets of less than ten million dollars with additional financial assurance in an amount equal to the difference between ten million dollars and the customer's or applicant's total assets in one of the forms described in Section X (any additional financial assurance provided pursuant to this Section II.A.4(a) shall not be counted toward satisfaction of the total financial assurance requirements as calculated pursuant to the ISO New England Financial Assurance Policy).
- (b) Any customer or applicant that fails to meet these capitalization requirements will be suspended (as described in Section III.B.3.c of the ISO New England Financial Assurance Policy) from entering into any future transactions of a duration greater than one month in the FTR system or any future transactions for a duration of one month or less except when FTRs for a month are being auctioned for the final time. Such a customer or applicant may enter into future transaction of a duration of one month or less in the FTR system in the case of FTRs for a month being auctioned for the final time. Any customer or applicant that fails to meet these capitalization requirements shall provide additional financial assurance in one of the forms described in Section X of the ISO New England Financial Assurance Policy equal to 25 percent of the customer's or applicant's FTR Financial Assurance Requirements. Any additional financial assurance provided pursuant to this Section II.A.4(b) shall not be counted toward satisfaction of the total financial assurance requirements as calculated pursuant to the ISO New England Financial Assurance Policy.
- (c) For markets other than the FTR market:
- (i) Where a customer or applicant fails to meet the capitalization requirements, the customer or applicant will be required to provide an additional amount of financial assurance in one of the forms described in Section X of the ISO New England Financial Assurance Policy in an amount equal to 25 percent of the customer's or applicant's total financial assurance requirement, ~~(excluding the~~ following:
- FTR Financial Assurance Requirements; and
 - FCM Delivery Financial Assurance for customers or applicants that are assessed as medium risk or high risk per the Corporate Liquidity

Assessment (as described in Section VII.A below) from the start of the Capacity Commitment Period related to the sixteenth Forward Capacity Auction (i.e., June 1, 2025) or any Capacity Commitment Period thereafter).

- (ii) An applicant that fails to provide the full amount of additional financial assurance required as described in subsection (i) above will be prohibited from participating in the New England Markets until the deficiency is rectified. For a customer, failure to provide the full amount of additional financial assurance required as described in subsection (i) above will have the same effect and will trigger the same consequences as exceeding the “100 Percent Test” as described in Section III.B.2.c of the ISO New England Financial Assurance Policy.
- (iii) Any additional financial assurance provided pursuant to this Section II.A.4(c) shall not be counted toward satisfaction of the total financial assurance requirements as calculated pursuant to the ISO New England Financial Assurance Policy.

5. Additional Eligibility Requirements

All customers and applicants shall at all times be:

- (a) An “appropriate person,” as defined in sections 4(c)(3)(A) through (J) of the Commodity Exchange Act (7 U.S.C. § 1 *et seq.*);
- (b) An “eligible contract participant,” as defined in section 1a(18)(A) of the Commodity Exchange Act and in 17 CFR § 1.3(m); or
- (c) A “person who actively participates in the generation, transmission, or distribution of electric energy,” as defined in the Final Order of the Commodity Futures Trading Commission published at 78 FR 19880 (April 2, 2013).

Each customer must demonstrate compliance with the requirements of this Section II.A.5 by submitting to the ISO on or before September 15, 2013 a certificate in the form of Attachment 4 to the ISO New England Financial Assurance Policy that (i) certifies that the customer is now and in good faith will seek to remain in compliance with the requirements of this Section II.A.5 and (ii) further certifies that if it no longer satisfies these requirements it shall immediately notify the ISO in writing and shall immediately

cease all participation in the New England Markets. If the customer is relying on section 4(c)(3)(F) of the Commodity Exchange Act, it shall accompany the certification with supporting documentation reasonably acceptable to the ISO, provided that letters of credit shall be in the form of Attachment 2 to the ISO New England Financial Assurance Policy and shall be in an amount equal to the difference between five million dollars and the customer's total assets. Any such supporting documentation shall serve to establish eligibility under this Section II.A.5 and shall not be counted toward satisfaction of the total financial assurance requirements as calculated pursuant to the ISO New England Financial Assurance Policy. The certificate must be signed on behalf of the customer by a Senior Officer of the customer. A customer that fails to provide this certificate by September 15, 2013 shall be immediately suspended and the ISO shall initiate termination proceedings against the customer.

Each applicant must submit with its membership application a certificate in the form of Attachment 4 to the ISO New England Financial Assurance Policy that (i) certifies that the applicant is now and in good faith will seek to remain in compliance with the requirements of this Section II.A.5 and (ii) further certifies that if it no longer satisfies these requirements it shall immediately notify the ISO in writing and shall immediately cease all participation in the New England Markets. If the applicant is relying on section 4(c)(3)(F) of the Commodity Exchange Act, it shall accompany the certification with supporting documentation reasonably acceptable to the ISO, provided that letters of credit shall be in the form of Attachment 2 to the ISO New England Financial Assurance Policy and shall be in an amount equal to the difference between five million dollars and the applicant's total assets. Any such supporting documentation shall serve to establish eligibility under this Section II.A.5 and shall not be counted toward satisfaction of the total financial assurance requirements as calculated pursuant to the ISO New England Financial Assurance Policy. The certificate must be signed on behalf of the applicant by a Senior Officer of the applicant.

The ISO, at its sole discretion, may require any applicant or customer to submit to the ISO documentation in support of the certification provided pursuant to this Section II.A.5. If at any time the ISO becomes aware that a customer no longer satisfies the requirements of this Section II.A.5, the customer shall be immediately suspended and the ISO shall initiate termination proceedings against the customer.

6. Prior Uncured Defaults

In addition to, and not in limitation of Section IV of the ISO New England Financial Assurance Policy, an applicant who has a previous uncured payment default must cure such payment default by payment to the ISO of all outstanding and unpaid obligations, as well as meet all requirements for participation in the New England Markets contained in the ISO New England Financial Assurance Policy. For purposes of this Section II.A.6 and the ISO's evaluation of information disclosed pursuant to Section II of the ISO New England Financial Assurance Policy, the ISO will evaluate relevant factors to determine if an entity seeking to participate in the New England Markets under a different name, affiliation, or organization, should be treated as the same customer or applicant that experienced the previous payment default. Such factors may include, but are not limited to, the interconnectedness of the business relationships, overlap in relevant personnel, similarity of business activities, overlap of customer base, and the business engaged in prior to the attempted re-entry. Notwithstanding the foregoing, an applicant shall not be required to cure a payment default that has lawfully been discharged pursuant to the U.S. Bankruptcy Code.

B. Proof of Financial Viability for Applicants

Each Applicant must, with its membership application and at its own expense, submit proof of financial viability, as described below, satisfying the ISO requirements to demonstrate the Applicant's ability to meet its obligations. Each Applicant that intends to establish a Market Credit Limit or a Transmission Credit Limit of greater than \$0 under Section II.D or Section II.E below must submit to the ISO all current rating agency reports from Standard and Poor's ("S&P"), Moody's and/or Fitch (collectively, the "Rating Agencies"). Each Applicant, whether or not it intends to establish a Market Credit Limit or Transmission Credit Limit of greater than \$0, must submit to the ISO audited financial statements for the two most recent years, or the period of its existence, if less than two years, and unaudited financial statements for its last concluded fiscal quarter if they are not included in such audited annual financial statements. These unaudited statements must be certified as to their accuracy by a Senior Officer of such Applicant, which, for purposes of ISO New England Financial Assurance Policy, means an officer of the subject entity with the title of vice president (or similar office) or higher,

or another officer designated in writing to the ISO by that officer. These audited and unaudited statements must include in each case, but are not limited to, the following information to the extent available: balance sheets, income statements, statements of cash flows and notes to financial statements, annual and quarterly reports, and 10-K, 10-Q and 8-K Reports. If any of these financial statements are available on the internet, the Applicant may provide instead a letter to the ISO stating where such statement may be located and retrieved. If any of the information or documentation required by this section is not available, alternate requirements may be specified by the ISO, at the ISO's sole discretion (such alternate requirements may include, but are not limited to: (i) consolidating statements or other financial statements (in the case of a stand-alone subsidiary) that are certified as to their accuracy and basis of accounting (in accordance with international accounting standards or generally accepted accounting principles in the United States) by an officer of the entity with the title of chief financial officer or equivalent position; (ii) reviewed statements; or (iii) compiled statements).

In addition, each Applicant, whether or not it intends to establish a Market Credit Limit or a Transmission Credit Limit, must submit to the ISO: (i) at least one (1) bank reference and three (3) utility company credit references, or in those cases where an Applicant does not have three (3) utility company credit references, three (3) major trade payable vendor references may be substituted; and (ii) relevant information as to any known or anticipated material lawsuits, as well as any prior bankruptcy declarations by the Applicant, or by its predecessor(s), if any; and (iii) a completed ISO credit application. In the case of certain Applicants, some of the information and documentation described in items (i) and (ii) of the immediately preceding sentence may not be applicable or available, and alternate requirements may be specified by the ISO or its designee in its sole discretion.

The ISO will not begin its review of a Market Participant's credit application or the accompanying material described above until full and final payment of that Market Participant's application fee.

The ISO shall prepare a report, or cause a report to be prepared, concerning the financial viability of each Applicant. In its review of each Applicant, the ISO or its designee shall consider all of the information and documentation described in this Section II. All costs

incurred by the ISO in its review of the financial viability of an Applicant shall be borne by such Applicant and paid at the time that such Applicant is required to pay its first annual fee under the Participants Agreement. For an Applicant applying for transmission service from the ISO, all costs incurred by the ISO shall be paid prior to the ISO's filing of a Transmission Service Agreement. The report shall be provided to the Participants Committee or its designee and the affected Applicant within three weeks of the ISO's receipt of that Applicant's completed application, application fee, and Initial Market Participant Financial Assurance Requirement, unless the ISO notifies the Applicant that more time is needed to perform additional due diligence with respect to its application.

C. Ongoing Review and Credit Ratings

1. Rated and Credit Qualifying Market Participants

A Market Participant that (i) has a corporate rating from one or more of the Rating Agencies, or (ii) has senior unsecured debt that is rated by one or more of the Rating Agencies, is referred to herein as "Rated." A Market Participant that is not Rated is referred to herein as "Unrated."

For all purposes in the ISO New England Financial Assurance Policy, for a Market Participant that is Rated, the lowest corporate rating from any Rating Agency for that Market Participant, or, if the Market Participant has no corporate rating, then the lowest rating from any Rating Agency for that Market Participant's senior unsecured debt, shall be the "Governing Rating."

A Market Participant that is: (i) Rated and whose Governing Rating is an Investment Grade Rating; or (ii) Unrated and that satisfies the Credit Threshold is referred to herein as "Credit Qualifying." A Market Participant that is not Credit Qualifying is referred to herein as "Non-Qualifying."

For purposes of the ISO New England Financial Assurance Policy, "Investment Grade Rating" for a Market Participant (other than an FTR-Only Customer) or Non-Market Participant Transmission Customer is either (a) a corporate investment grade rating from one or more of the Rating Agencies, or (b) if the Market Participant or Non-Market Participant Transmission Customer does not have a corporate rating from one of the

Rating Agencies, then an investment grade rating for the Market Participant's or Non-Market Participant Transmission Customer's senior unsecured debt from one or more of the Rating Agencies.

2. Unrated Market Participants

Any Unrated Market Participant that (i) has not been a Market Participant in the ISO for at least the immediately preceding 365 days; or (ii) has defaulted on any of its obligations under the Tariff (including without limitation its obligations hereunder and under the ISO New England Billing Policy) during such 365-day period; or (iii) is an FTR-Only Customer; or (iv) does not have a Current Ratio of at least 1.0, a Debt-to-Total Capitalization Ratio of 0.6 or less, and an EBITDA-to-Interest Expense Ratio of at least 2.0 must provide an appropriate form of financial assurance as described in Section X below. An Unrated Market Participant that does not meet any of the conditions in clauses (i), (ii), (iii) and (iv) of this paragraph is referred to herein as satisfying the "Credit Threshold."

For purposes of the ISO New England Financial Assurance Policy, "Current Ratio" on any date is all of a Market Participant's or Non-Market Participant Transmission Customer's current assets divided by all of its current liabilities, in each case as shown on the most recent financial statements provided by such Market Participant or Non-Market Participant Transmission Customer to the ISO; "Debt-to-Total Capitalization Ratio" on any date is a Market Participant's or Non-Market Participant Transmission Customer's total debt (including all current borrowings) divided by its total shareholders' equity plus total debt, in each case as shown on the most recent financial statements provided by such Market Participant or Non-Market Participant Transmission Customer to the ISO; and "EBITDA-to-Interest Expense Ratio" on any date is a Market Participant's or Non-Market Participant Transmission Customer's earnings before interest, taxes, depreciation and amortization in the most recent fiscal quarter divided by that Market Participant's or Non-Market Participant Transmission Customer's expense for interest in that fiscal quarter, in each case as shown on the most recent financial statements provided by such Market Participant or Non-Market Participant Transmission Customer to the ISO. The "Debt-to-Total Capitalization Ratio" will not be considered for purposes of determining whether a Municipal Market Participant satisfies the Credit Threshold. Each of the ratios described in this paragraph shall be determined in accordance with international

accounting standards or generally accepted accounting principles in the United States at the time of determination consistently applied.

3. Information Reporting Requirements for Market Participants

Each Market Participant having a Market Credit Limit or Transmission Credit Limit greater than zero or meeting the capitalization requirements by maintaining a minimum Tangible Net Worth or minimum total assets as described in Section II.A.4(a) shall submit to the ISO, on a quarterly basis within 10 days of its becoming available and within 65 days after the end of the applicable fiscal quarter of such Market Participant, its balance sheet, which shall show sufficient detail for the ISO to assess the Market Participant's Tangible Net Worth. Unrated Market Participants having a Market Credit Limit or Transmission Credit Limit greater than zero shall also provide additional financial statements, which shall show sufficient detail for the ISO to calculate such Unrated Market Participant's Current Ratio, Debt-to-Total Capitalization Ratio and EBITDA-to-Interest Expense Ratio. In addition, each Market Participant having a Market Credit Limit or Transmission Credit Limit greater than zero or meeting the capitalization requirements by maintaining a minimum Tangible Net Worth or minimum total assets as described in Section II.A.4(a) shall submit to the ISO, annually within 10 days of their becoming available and within 120 days after the end of the fiscal year of such Market Participant, balance sheets and income statements (balance sheets and income statements that are part of audited financial statements shall be submitted if available; if such balance sheets and income statements are not available, then another alternative form of financial statements accepted by the ISO as described below may be submitted). If any of this financial information is available on the internet, the Market Participant may provide instead a letter to the ISO stating where such information may be located and retrieved. If any of the information or documentation required by this section is not available, alternate requirements may be specified by the ISO (such alternate requirements may include, but are not limited to: (i) consolidating statements or other financial statements (in the case of a stand-alone subsidiary) that are certified as to their accuracy and basis of accounting (in accordance with international accounting standards or generally accepted accounting principles in the United States) by an officer of the entity with the title of chief financial officer or equivalent position; (ii) reviewed statements; (iii) compiled statements; (iv) internally prepared statements; or (v) tax returns).

Except in the case of a Market Participant or Unrated Market Participant that submits audited financial statements to the ISO, financial statements submitted to the ISO pursuant to this Section II.C.3 shall be accompanied by a written statement from a Senior Officer of the Market Participant or Unrated Market Participant certifying the accuracy of those financial statements. If an attestation was made by an independent accounting firm, then the written statement shall indicate the level of attestation made; if no attestation was made by an independent accounting firm, then no such indication is required.

Notwithstanding any other provision in this subsection, the ISO may require any Market Participant to submit the financial statements and other information described in this subsection. The Market Participant shall provide the requested statements and other information within 10 days of such request. If a Market Participant fails to provide financial statements or other information as requested and the ISO determines that the Market Participant poses an unreasonable risk to the New England Markets, then the ISO may request that the Market Participant provide additional financial assurance in an amount no greater than \$10 million, or take other measures to substantiate the Market Participant's ability to safely transact in the New England Markets (any additional financial assurance provided pursuant to this Section II.C.3 shall not be counted toward satisfaction of the total financial assurance requirements as calculated pursuant to the ISO New England Financial Assurance Policy). If the Market Participant fails to comply with such a request from the ISO, then the ISO may issue a notice of suspension or termination to the Market Participant. If the Market Participant fails to comply with the ISO's request within 5 Business Days from the date of issuance of the notice of suspension or termination, then the ISO may suspend or terminate the Market Participant.

A Market Participant may choose not to submit financial statements as described in this Section II.C.3, in which case the ISO shall use a value of \$0.00 for the Market Participant's total assets and Tangible Net Worth for purposes of the capitalization assessment described in Section II.A.4(a) and such Market Participant's Market Credit Limit and Transmission Credit Limit shall be \$0.00.

A Market Participant may choose to provide additional financial assurance in an amount equal to \$10 million in lieu of providing financial statements under this Section II.C.3.

Such amount shall not be counted toward satisfaction of the total financial assurance requirements as calculated pursuant to the ISO New England Financial Assurance Policy but shall be sufficient to meet the capitalization requirements in Section II.A.4(a)(iii).

D. Market Credit Limits

A credit limit for a Market Participant's Financial Assurance Obligations except FTR Financial Assurance Requirements (a "Market Credit Limit") shall be established for each Market Participant in accordance with this Section II.D.

1. Market Credit Limit for Non-Municipal Market Participants

A "Market Credit Limit" shall be established for each Rated Non-Municipal Market Participant in accordance with subsection (a) below, and a Market Credit Limit shall be established for each Unrated Non-Municipal Market Participant in accordance with subsection (b) below.

a. Market Credit Limit for Rated Non-Municipal Market Participants

As reflected in the following table, the Market Credit Limit of each Rated Non-Municipal Market Participant (other than an FTR-Only Customer) shall at any time be equal to the lesser of: (i) the applicable percentage of such Rated Non-Municipal Market Participant's Tangible Net Worth as listed in the following table, (ii) \$50 million, or (iii) 20 percent (20%) of the total amount due and owing (not including any amounts due under Section 14.1 of the RNA) at such time to the ISO, NEPOOL, the PTOs, the Market Participants and the Non-Market Participant Transmission Customers, by all PTOs, Market Participants and Non-Market Participant Transmission Customers ("TADO").

<u>Investment Grade Rating</u>		<u>Percentage of Tangible Net Worth</u>
S&P/Fitch	Moody's	
AAA	Aaa	5.50%
AA+	Aa1	5.50%
AA	Aa2	4.50%
AA-	Aa3	4.00%
A+	A1	3.05%

A	A2	2.85%
A-	A3	2.60%
BBB+	Baa1	2.30%
BBB	Baa2	1.90%
BBB-	Baa3	1.20%
Below BBB-	Below Baa3	0.00%

An entity's "Tangible Net Worth" for purposes of the ISO New England Financial Assurance Policy on any date is the value, determined in accordance with international accounting standards or generally accepted accounting principles in the United States, of all of that entity's assets less the following: (i) assets the ISO reasonably believes to be restricted or potentially unavailable to settle a claim in the event of a default (e.g., regulatory assets, restricted assets, and Affiliate assets), net of any matching liabilities, to the extent that the result of that netting is a positive value; (ii) derivative assets, net of any matching liabilities, to the extent that the result of that netting is a positive value; (iii) the amount at which the liabilities of the entity would be shown on a balance sheet in accordance with international accounting standards or generally accepted accounting principles in the United States; (iv) preferred stock; (v) non-controlling interest; and (vi) all of that entity's intangible assets (e.g., patents, trademarks, franchises, intellectual property, goodwill and any other assets not having a physical existence), in each case as shown on the most recent financial statements provided by such entity to the ISO.

b. Market Credit Limit for Unrated Non-Municipal Market Participants

The Market Credit Limit of each Unrated Non-Municipal Market Participant that satisfies the Credit Threshold shall at any time be equal to the lesser of: (i) 0.50 percent (0.50% or ½ of 1%) of such Unrated Non-Municipal Market Participant's Tangible Net Worth, (ii) \$25 million or (iii) 20 percent (20%) of TADO. The Market Credit Limit of each Unrated Non-Municipal Market Participant that does not satisfy the Credit Threshold shall be \$0.

2. Market Credit Limit for Municipal Market Participants

The Market Credit Limit for each Credit Qualifying Municipal Market Participant shall be equal to the lesser of (i) 20 percent (20%) of TADO and (ii) \$25 million. The Market Credit Limit for each Non-Qualifying Municipal Market Participant shall be \$0. The sum

of the Market Credit Limits and Transmission Credit Limits of entities that are Affiliates shall not exceed \$50 million.

E. Transmission Credit Limits

A “Transmission Credit Limit” shall be established for each Market Participant in accordance with this Section II.E, which Transmission Credit Limit shall apply in accordance with this Section II.E. A Transmission Credit Limit may not be used to meet FTR Financial Assurance Requirements.

1. Transmission Credit Limit for Rated Non-Municipal Market Participants

The Transmission Credit Limit of each Rated Non-Municipal Market Participant shall at any time be equal to the lesser of: (i) the applicable percentage of such Rated Non-Municipal Market Participant’s Tangible Net Worth as listed in the following table or (ii) \$50 million:

<u>Investment Grade Rating</u>		<u>Percentage of Tangible Net Worth</u>
S&P/Fitch	Moody’s	
AAA	Aaa	5.50%
AA+	Aa1	5.50%
AA	Aa2	4.50%
AA-	Aa3	4.00%
A+	A1	3.05%
A	A2	2.85%
A-	A3	2.60%
BBB+	Baa1	2.30%
BBB	Baa2	1.90%
BBB-	Baa3	1.20%
Below BBB-	Below Baa3	0.00%

2. Transmission Credit Limit for Unrated Non-Municipal Market Participant

The Transmission Credit Limit of each Unrated Non-Municipal Market Participant that satisfies the Credit Threshold shall at any time be equal to the lesser of: (i) 0.50 percent (0.50% or ½ of 1%) of such Unrated Non-Municipal Market Participant’s Tangible Net

Worth or (ii) \$25 million. The Transmission Credit Limit of each Unrated Non-Municipal Market Participant that does not satisfy the Credit Threshold shall be \$0.

3. Transmission Credit Limit for Municipal Market Participants

The Transmission Credit Limit for each Credit Qualifying Municipal Market Participant shall be equal to \$25 million. The Transmission Credit Limit for each Non-Qualifying Municipal Market Participant shall be \$0. The sum of the Market Credit Limits and Transmission Credit Limits of entities that are Affiliates shall not exceed \$50 million.

F. Credit Limits for FTR-Only Customers

The Market Credit Limit and Transmission Credit Limit of each FTR-Only Customer shall be \$0.

G. Total Credit Limit

The sum of a Rated Non-Municipal Market Participant's Market Credit Limit and Transmission Credit Limit shall not exceed \$50 million and the sum of the Market Credit Limits and Transmission Credit Limits of entities that are Affiliates shall not exceed \$50 million. No later than five Business Days prior to the first day of each calendar quarter, and no later than five Business Days after any Affiliate change, each Rated Non-Municipal Market Participant that has a Market Credit Limit and a Transmission Credit Limit shall determine the amounts to be allocated to its Market Credit Limit (up to the limit set forth in Section II.D.1.a above) and its Transmission Credit Limit (up to the limit set forth in Section II.E.1 above) such that the sum of its Market Credit Limit and its Transmission Credit Limit are equal to not more than \$50 million and such that the sum of the Market Credit Limits and Transmission Credit Limits of entities that are Affiliates do not exceed \$50 million and shall provide the ISO with that determination in writing. Each Rated Non-Municipal Market Participant may provide such determination for up to four consecutive calendar quarters. If a Rated Non-Municipal Market Participant does not provide such determination, then the ISO shall use the amounts provided for the previous calendar quarter. If no such determination is provided, then the ISO shall apply an allocation of \$25 million each to the Market Credit Limit and Transmission Credit Limit, which values shall also be used in allocating the \$50 million credit limit among Affiliates. If the sum of the amounts for Affiliates is greater than \$50 million, then the ISO shall reduce the amounts (proportionally to the amounts provided by each Affiliate,

or to the allocation applied by the ISO in the case of an Affiliate that provided no determination) such that the sum is no greater than \$50 million.

III. MARKET PARTICIPANTS' REQUIREMENTS

Each Market Participant that provides the ISO with financial assurance pursuant to this Section III must provide the ISO with financial assurance in one of the forms described in Section X below and in an amount equal to the amount required in order to avoid suspension under Section III.B below (the "Market Participant Financial Assurance Requirement"). A Market Participant's Market Participant Financial Assurance Requirement shall remain in effect as provided herein until the later of (a) 150 days after termination of the Market Participant's membership or (b) the end date of all FTRs awarded to the Market Participant and the final satisfaction of all obligations of the Market Participant providing that financial assurance; provided, however that financial assurances required by the ISO New England Financial Assurance Policy related to potential billing adjustments chargeable to a terminated Market Participant shall remain in effect until such billing adjustment request is finally resolved in accordance with the provisions of the ISO New England Billing Policy. Furthermore and without limiting the generality of the foregoing, (i) any portion of any financial assurance provided under the ISO New England Financial Assurance Policy that relates to a Disputed Amount shall not be terminated or returned prior to the resolution of such dispute, even if the Market Participant providing such financial assurance is terminated or voluntarily terminates its MPSA and otherwise satisfies all of its obligations to the ISO and (ii) the ISO shall not return or permit the termination of any financial assurance provided under the ISO New England Financial Assurance Policy by a Market Participant that has terminated its membership or been terminated to the extent that the ISO determines in its reasonable discretion that that financial assurance will be required under the ISO New England Financial Assurance Policy with respect to an unsettled liability or obligation owing from that Market Participant.

A Market Participant that knows that it is not satisfying its Market Participant Financial Assurance Requirement shall notify the ISO immediately of that fact.

A. Determination of Financial Assurance Obligations

For purposes of the ISO New England Financial Assurance Policy:

- (i) a Market Participant's "Hourly Requirements" at any time will be the sum of (x) the Hourly Charges (excluding Daily FCM Charges) for such Market Participant that have been invoiced but not paid (which amount shall not be less than \$0), plus (y) the Hourly

Charges (excluding Daily FCM Charges) for such Market Participant that have been settled but not invoiced, plus (z) the Hourly Charges (excluding Daily FCM Charges) for such Market Participant that have been cleared but not settled which amount shall be calculated by the Hourly Charges Estimator. The Hourly Charges Estimator (which amount shall not be less than \$0) shall be determined by the following formula:

$$\text{Hourly Charges Estimator} = \sum_{i=t-n+1}^t \text{HC}_i \times \text{LMP ratio} \times 1.15$$

Where:

- t = The last day that such Market Participant's Hourly Charges (excluding Daily FCM Charges) are fully settled;
- n = The number of days that such Market Participant's Day-Ahead Energy has been cleared but not settled;
- HC = The Hourly Charges (excluding Daily FCM Charges) for such Market Participant for a fully settled day; and
- LMP ratio = The average Day-Ahead Prices at the New England Hub over the period of cleared but not settled n days divided by the average Day-Ahead Prices at the New England Hub over the period of most recent fully settled n days. For purposes of this Section III.A.(i), the "New England Hub" shall mean the Hub located in Western and Central Massachusetts referred to as .H.INTERNAL_HUB;

- (ii) A Market Participant's "Daily FCM Requirements" at any time will be the sum of (x) the Daily FCM Charges that have been invoiced but not paid (which amount shall not be less than \$0), plus (y) the Daily FCM Charges that have been settled but not invoiced, plus (z) the Daily FCM Charges for such Market Participant that have been incurred but not settled which amount shall be calculated by the Daily FCM Obligation Estimator. The Daily FCM Obligation Estimator (which amount shall not be less than \$0) shall be determined by the following formula:

$$\text{Daily FCM Obligation Estimator} = \text{MAX}(\text{FCM_Daily_Credit_CM} \times \text{NDAY_CM} + \text{FCM_Daily_Credit_PM} \times \text{NDAY_PM} + \text{FCM_Charge_LD} \times \text{NDAY_P2} \times \text{FCA_Price_Ratio}, 0)$$

Where:

FCM_Daily_Credit_CM is the portion of the Daily FCM Charges that corresponds to Capacity Supply Obligations for the Market Participant in the current month;

FCM_Daily_Credit_PM is the portion of the Daily FCM Charges that corresponds to Capacity Supply Obligations for the Market Participant in the month preceding the current month;

NDAY_CM is the number of days in the current month within the period from the last day the Daily FCM Charges have been settled to the current day (when financial assurance is assessed);

NDAY_PM is the number of days in the month preceding the current month within the period from the last day of the Daily FCM Charges have been settled to the current day (when financial assurance is assessed);

FCM_Charge_LD is the portion of the Daily FCM Charges that corresponds to Capacity Load Obligations for the Market Participant from the last day the Daily FCM Charges have been settled; and

NDAY_P2 is the number of days from the last day the Daily FCM Charges have been settled to the current day (when financial assurance is assessed) plus 2.

The FCA_Price_Ratio shall be calculated as the weighted average of the Capacity Clearing Prices for the Rest-of-Pool Capacity Zone for the relevant Capacity Commitment Periods divided by the Capacity Clearing Price for the Rest-of-Pool Capacity Zone corresponding to the Capacity Commitment Period that contains the last day the Daily FCM Charges have been settled, as determined by the following formula:

$$\text{FCA_Price_Ratio} = (((\text{Clearing Price_CCP}_n \times \text{NDAY_P2_CCP}_n) + (\text{Clearing Price_CCP}_{n+1} \times \text{NDAY_P2_CCP}_{n+1})) / \text{NDAY_P2}) / (\text{Clearing Price_CCP}_n)$$

Where:

Clearing Price_CCP_n is the Capacity Clearing Price for the Rest-of-Pool Capacity Zone corresponding to the Capacity Commitment Period that contains the last day that the Daily FCM Charges have been settled;

Clearing Price_CCP_{n+1} is the Capacity Clearing Price for the Rest-of-Pool Capacity Zone for the Capacity Commitment Period following CCP_n;

NDAY_P2_CCP_n is number of days in the CCP_n within NDAY_P2; and

NDAY_P2_CCP_{n+1} is number of days in the CCP_{n+1} within NDAY_P2.

- (iii) a Market Participant's "Non-Hourly Requirements" at any time will be determined by averaging that Market Participant's Non-Hourly Charges but not include: (A) the amount due from or to such Market Participant for FTR transactions, (B) any amounts due from such Market Participant for the Forward Capacity Market, (C) any amounts due under Section 14.1 of the RNA, (D) any amounts due for NEPOOL GIS API Fees, and (E) the amount of any Qualification Process Cost Reimbursement Deposit (including the annual true-up of that amount) due from such Market Participant) over the two most recently invoiced calendar months; provided that such Non-Hourly Requirements shall in no event be less than zero;
- (iv) a Market Participant's "Transmission Requirements" at any time will be determined by averaging that Market Participant's Transmission Charges over the two most recently invoiced calendar months; provided that such Transmission Requirements shall in no event be less than \$0;
- (v) a Market Participant's Virtual Requirements at any time will equal the amount of all unsettled Increment Offers and Decrement Bids submitted by such Market Participant at such time (which amount of unsettled Increment Offers and Decrement Bids will be calculated by the ISO according to a methodology approved from time to time by the NEPOOL Budget and Finance Subcommittee and posted on the ISO's website);
- (vi) a Market Participant's "Financial Assurance Obligations" at any time will be equal to the sum at such time of:
 - a. such Market Participant's Hourly Requirements; plus
 - b. such Market Participant's Daily FCM Requirements; plus
 - c. such Market Participant's Virtual Requirements; plus
 - d. such Market Participant's Non-Hourly Requirements times 2.50 (subject to Section X.D with respect to Provisional Members); plus
 - e. such Market Participant's "FTR Financial Assurance Requirements" under Section VI below; plus
 - f. such Market Participant's "FCM Financial Assurance Requirements" under Section VII below; plus

- g. such Market Participant's "IEP Financial Assurance Requirement" under Section III.D below; plus
 - h. the amount of any Disputed Amounts received by such Market Participant; and
- (vii) a Market Participant's "Transmission Obligations" at any time will be such Market Participant's Transmission Requirements times 2.50.

To the extent that the calculations of the components of a Market Participant's Financial Assurance Obligations (excluding FTR Financial Assurance Requirements) as described above produce positive and negative values, such components may offset each other; provided, however, that a Market Participant's Financial Assurance Obligations shall never be less than zero.

B. Credit Test Calculations and Allocation of Financial Assurance, Notice and Suspension from the New England Markets

1. Credit Test Calculations and Allocation of Financial Assurance

The financial assurance provided by a Market Participant shall be applied as described in this Section.

- (a) "Market Credit Test Percentage" is equal to a Market Participant's Financial Assurance Obligations (excluding FTR Financial Assurance Requirements) divided by the sum of its Market Credit Limit and any financial assurance allocated as described in subsection (d) below.
- (b) "FTR Credit Test Percentage" is equal to a Market Participant's FTR Financial Assurance Requirements divided by any financial assurance allocated as described in subsection (d) below.
- (c) "Transmission Credit Test Percentage" is equal to a Market Participant's Transmission Obligations divided by the sum of its Transmission Credit Limit and any financial assurance allocated as described in subsection (d) below.
- (d) A Market Participant's financial assurance shall be allocated as follows:
 - (i) financial assurance shall be first allocated so as to ensure that the Market Participant's Market Credit Test Percentage is no greater than 100%;
 - (ii) any financial assurance that remains after the allocation described in subsection (d) (i) shall be allocated so as to ensure that the Market Participant's FTR Credit Test Percentage is no greater than 100%;

- (iii) any financial assurance that remains after the allocation described in subsection (d) (ii) shall be allocated so as to ensure that the Market Participant's Transmission Credit Test Percentage is no greater than 100%;
- (iv) if any financial assurance remains after the allocations described in subsection (d) (iii), then that remaining financial assurance shall be allocated by repeating the steps described in subsections (d) (i), (d) (ii), and (d) (iii) to ensure that the respective test percentages are no greater than 89.99%;
- (v) if any financial assurance remains after the allocation described in subsection (d) (iv), then that remaining financial assurance shall be allocated by repeating the steps described in subsections (d) (i), (d) (ii), and (d) (iii) to ensure that the respective test percentages are no greater than 79.99%;
- (vi) any financial assurance that remains after the allocations described in subsection (d) (v) shall be allocated to the Market Credit Test Percentage.

2. Notices

a. 80 Percent Test

When a Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, or Transmission Credit Test Percentage equals or exceeds 80 percent (80%), the ISO shall issue notice thereof to such Market Participant.

b. 90 Percent Test

When a Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage or Transmission Credit Test Percentage equals or exceeds 90 percent (90%) , then, in addition to the actions to be taken when the Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, or Transmission Credit Test Percentage equals or exceeds 80 percent (80%), the ISO shall issue notice thereof to such Market Participant. The ISO shall also issue a 90 percent (90%) notice to a Market Participant and take certain other actions under the circumstances described in Section III.B.2.c below.

c. 100 Percent Test

When a Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, or Transmission Credit Test Percentage exceeds 100 percent (100%) or when the sum of the financial assurance and credit limits of a Market Participant that has financial assurance requirements equal zero, then, in addition to the actions to be taken when the

Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, or Transmission Credit Test Percentage equals or exceeds 80 percent (80%) and 90 percent (90%), (i) the ISO shall issue notice thereof to such Market Participant, (ii) that Market Participant shall be immediately suspended from submitting Increment Offers and Decrement Bids until such time when its Market Credit Test Percentage, FTR Credit Test Percentage, and Transmission Credit Test Percentage are less than or equal to 100 percent (100%), and (iii) if sufficient financial assurance to lower the Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, and Transmission Credit Test Percentage to less than or equal to 100 percent (100%) or, in the case of a Market Participant that has received one to five notices that its Market Credit Test Percentage, FTR Credit Test Percentage, or Transmission Credit Test Percentage exceeds 100 percent (100%) in the previous 365 days (not including the instant notice), sufficient financial assurance to lower such Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, and Transmission Credit Test Percentage to less than or equal to 90 percent (90%), is not provided by 8:30 a.m. Eastern Time on the next Business Day, (a) the event shall be a Financial Assurance Default; (b) the ISO shall issue notice thereof to such Market Participant, to the NEPOOL Budget and Finance Subcommittee, to all members and alternates of the Participants Committee, to the New England governors and utility regulatory agencies and to the billing and credit contacts for all Market Participants, and (c) such Market Participant shall be suspended from: (1) the New England Markets, as provided below; (2) receiving transmission service under any existing or pending arrangements under the Tariff or scheduling any future transmission service under the Tariff; (3) voting on matters before the Participants Committee and NEPOOL Technical Committees; (4) entering into any future transactions in the FTR system; and (5) submitting an offer of Non-Commercial Capacity in any Forward Capacity Auction or any reconfiguration auction in the Forward Capacity Market, in each case until such Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, and Transmission Credit Test Percentage are at 100 percent (100%) or less. In addition to all of the provisions above, any Market Participant that has received six or more notices in the previous 365 days that its Market Credit Test Percentage, FTR Credit Test Percentage, or Transmission Credit Test Percentage has exceeded 100 percent (100%) shall receive a notice thereof and shall be required to maintain sufficient financial assurance to keep such Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, and Transmission Credit Test Percentage at less than or equal to 90

percent (90%). If such Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage or Transmission Credit Test Percentage exceeds 90 percent (90%), the ISO shall issue a notice thereof to such Market Participant. If sufficient financial assurance to lower such Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, and Transmission Credit Test Percentage to less than or equal to 90 percent (90%) is not provided by 8:30 a.m. Eastern Time on the next Business Day, then the consequences described in subsections (a), (b) and (c) of Section III.B.2.c (iii) above shall apply until such Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, and Transmission Credit Test Percentage are at 90 percent (90%) or less.

However, when a Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, or Transmission Credit Test Percentage exceeds 100 percent (100%) or 90 percent (90%), as applicable under this Section III.B.2.c, solely because its Investment Grade Rating is downgraded by one grade and the resulting grade is BBB-/Baa3 or higher, then (x) for five Business Days after such downgrade, such downgrade shall not by itself cause a change to such Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, and Transmission Credit Test Percentage and (y) no notice shall be sent and none of the other actions described in this Section III.B shall occur with respect to such downgrade if such Market Participant cures such default within such five Business Day period. When a Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, or Transmission Credit Test Percentage exceeds 100 percent solely because a letter of credit is valued at \$0 prior to the termination of that letter of credit, as described in Section X.B, then the ISO, in its sole discretion, may determine that: (x) for five Business Days after such change in the valuation of the letter of credit, such valuation shall not by itself cause a change to such Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, and Transmission Credit Test Percentage; and/or (y) no notice shall be sent and none of the other actions described in this Section III.B shall occur with respect to such valuation if such Market Participant cures such default within such five Business Day period.

Notwithstanding the foregoing, a Market Participant shall neither (x) receive a notice that its Market Credit Test Percentage, FTR Credit Test Percentage, or Transmission Credit Test Percentage exceeds 100 percent (100%) nor (y) be suspended under this Section

III.B if (i) the amount of financial assurance necessary for that Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, and Transmission Credit Test Percentage to get to 100 percent (100%) or lower is less than \$1,000 or (ii) that Market Participant's status with the ISO has been terminated.

3. Suspension from the New England Markets

a. General

The suspension of a Market Participant, and any resulting annulment, termination or removal of OASIS reservations, removal from the settlement system and the FTR system, suspension of the ability to offer Non-Commercial Capacity or participate in a substitution auction in the Forward Capacity Market, drawing down of financial assurance, rejection of Increment Offers and Decrement Bids, and rejection of bilateral transactions submitted to the ISO, shall not limit, in any way, the ISO's right to invoice or collect payment for any amounts owed (whether such amounts are due or becoming due) by such suspended Market Participant under the Tariff or the ISO's right to administratively submit a bid or offer of a Market Participant's Non-Commercial Capacity in any Forward Capacity Auction or any reconfiguration auction or to make other adjustments under Market Rule 1.

In addition to the notices provided herein, the ISO will provide any additional information required under the ISO New England Information Policy.

Each notice issued by the ISO pursuant to this Section III.B shall indicate whether the subject Market Participant has a registered load asset. If the ISO has issued a notice pursuant to this Section III.B and subsequently the subject Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, and Transmission Credit Test Percentage are equal to or less than 100 percent (100%), such Market Participant may request the ISO to issue a notice stating such fact. However, the ISO shall not be obligated to issue such a notice unless, in its sole discretion, the ISO concludes that such Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, and Transmission Credit Test Percentage are equal to or less than 100 percent (100%).

Notwithstanding the foregoing, if a Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, or Transmission Credit Test Percentage equals or exceeds 90 percent (90%) as a result of one or more Increment Offers or Decrement Bids submitted by that Market Participant, or as a result of the submission to the ISO of one or more bilateral transactions to which the Market Participant is a party, and, but for such Increment Offers and/or Decrement Bids or such bilateral transactions, such Market Participant would be in compliance with the ISO New England Financial Assurance Policy, a notice will not be issued.

If a Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, or Transmission Credit Test Percentage exceeds 100 percent (100%) as a result of one or more Increment Offers or Decrement Bids submitted by that Market Participant, or as a result of the submission to the ISO of one or more bilateral transactions to which the Market Participant is a party, and, but for such Increment Offers and/or Decrement Bids or such bilateral transactions, such Market Participant would be in compliance with the ISO New England Financial Assurance Policy, a notice will be issued only to such Market Participant, and such Market Participant shall be "suspended" as described below.

Any such suspension as a result of one or more Increment Offers or Decrement Bids submitted by a Market Participant, or as a result of the submission to the ISO of one or more bilateral transactions to which the Market Participant is a party, shall take effect immediately upon submission of such Increment Offers and/or Decrement Bids or such bilateral transactions to remain in effect until such Market Participant is in compliance with the ISO New England Financial Assurance Policy, notwithstanding any provision of this Section III.B to the contrary.

If a Market Participant is suspended from the New England Markets in accordance with the provisions of the ISO New England Financial Assurance Policy or the ISO New England Billing Policy, then the provisions of this Section III.B shall control notwithstanding any other provision of the Tariff to the contrary. A suspended Market Participant shall have no ability so long as it is suspended (i) to be reflected in the ISO's settlement system, including any bilateral transactions, as either a purchaser or a seller of any products or services sold through the New England Markets (other than (A) Commercial Capacity and (B) Non-Commercial Capacity during the Non-Commercial

Capacity Cure Period) that cause such suspended Market Participant to incur a financial obligation in the ISO's settlement system or any liability to the ISO, NEPOOL, or the Market Participants, (ii) to submit Demand Bids, Decrement Bids or Increment Offers in the New England Markets, (iii) to submit offers for Non-Commercial Capacity in any Forward Capacity Auction or reconfiguration auction or acquire Non-Commercial Capacity through a Capacity Supply Obligation Bilateral, or (iv) to submit supply offers or demand bids in any Forward Capacity Market substitution auction. Any transactions, including bilateral transactions with a suspended Market Participant (other than transactions for (A) Commercial Capacity and (B) Non-Commercial Capacity during the Non-Commercial Capacity Cure Period) that cause such suspended Market Participant to incur a financial obligation in the ISO's settlement system or any liability to the ISO, NEPOOL, or the other Market Participants and any Demand Bids, Decrement Bids, Increment Offers, and Export Transactions submitted by a suspended Market Participant shall be deemed to be terminated for purposes of the Day-Ahead Energy Market clearing and the ISO's settlement system. If a Market Participant has provided the financial assurance required for a Capacity Supply Obligation Bilateral or Annual Reconfiguration Transaction, then that Capacity Supply Obligation Bilateral or Annual Reconfiguration Transaction, respectively, will not be deemed to be terminated when that Market Participant is suspended.

b. Load Assets

Any load asset registered to a suspended Market Participant shall be terminated, and the obligation to serve the load associated with such load asset shall be assigned to the relevant unmetered load asset(s) unless and until the host Market Participant for such load assigns the obligation to serve such load to another asset. If the suspended Market Participant is responsible for serving an unmetered load asset, such suspended Market Participant shall retain the obligation to serve such unmetered load asset. If a suspended Market Participant has an ownership share of a load asset, such ownership share shall revert to the Market Participant that assigned such ownership share to such suspended Market Participant. If a suspended Market Participant has the obligation under the Tariff or otherwise to offer any of its supply or to bid any pumping load to provide products or services sold through the New England Markets, that obligation shall continue, but only in Real-Time, notwithstanding the Market Participant's suspension, and such offer or bid, if cleared under the Tariff, shall be effective.

c. FTRs

If a Market Participant is suspended from entering into future transactions in the FTR system, such Market Participant shall retain all FTRs held by it but shall be prohibited from acquiring any additional FTRs during the course of its suspension. It is intended that any suspension under the ISO New England Financial Assurance Policy or the ISO New England Billing Policy will occur promptly, and the definitive timing of any such suspension shall be determined by the ISO from time to time as reported to the NEPOOL Budget and Finance Subcommittee, and shall be posted on the ISO website.

d. Virtual Transactions

Notwithstanding the foregoing, if a Market Participant is suspended in accordance with the provisions of the ISO New England Financial Assurance Policy as a result of one or more Increment Offers or Decrement Bids submitted by that Market Participant and, but for such Increment Offers and/or Decrement Bids, such Market Participant would be in compliance with the ISO New England Financial Assurance Policy, then such suspension shall be limited to (i) the immediate “last in, first out” rejection of pending individual uncleared Increment Offers and Decrement Bids submitted by that Market Participant (it being understood that Increment Offers and Decrement Bids are batched by the ISO in accordance with the time, and that Increment Offers and Decrement Bids will be rejected by the batch); and (ii) the suspension of that Market Participant’s ability to submit additional Increment Offers and Decrement Bids unless and until it has complied with the ISO New England Financial Assurance Policy, and the determination of compliance for these purposes will take into account the level of aggregate outstanding obligations of that Market Participant after giving effect to the immediate rejection of that Market Participant’s Increment Offers and Decrement Bids described in clause (i).

e. Bilateral Transactions

If the sum of the financial assurance and credit limits of a Market Participant that has financial assurance requirements equals zero and that Market Participant would be in compliance with the ISO New England Financial Assurance Policy but for the submission of bilateral transactions to the ISO to which the Market Participant is a party, or if a Market Participant’s Market Credit Test Percentage, FTR Credit Test Percentage, or Transmission Credit Test Percentage exceeds 100 percent as a result of one or more bilateral transactions submitted to the ISO to which the Market Participant is a party, then the consequences described in subsection (a) above shall be limited to: (i) rejection of any pending bilateral transactions to which a Market Participant is a party that cause the Market Participant to incur a financial obligation in the ISO’s settlement system or any

liability to the ISO, NEPOOL, or the Market Participants, such that the aggregate value of the pending bilateral transactions submitted by all Market Participants is maximized (recognizing the downstream effect that rejection of a bilateral transaction may have on the Market Credit Test Percentages, FTR Credit Test Percentages, or Transmission Credit Test Percentages of other Market Participants), while ensuring that the financial assurance requirements of each Market Participant are satisfied; and (ii) suspension of that Market Participant's ability to submit additional bilateral transactions until it has complied with the ISO New England Financial Assurance Policy (the determination of compliance for these purposes will take into account the level of aggregate outstanding obligations of the Market Participant after giving effect to the immediate rejection of the bilateral transactions to which the Market Participant is a party as described in clause (i) above). In the case of a bilateral transaction associated with the Day-Ahead Energy Market, the ISO will provide notice to a Market Participant that would be in default of the ISO New England Financial Assurance Policy as a result of the bilateral transaction, and the consequences described in clauses (i) and (ii) above shall only apply if the Market Participant fails to cure its default by 6:00 p.m. Eastern Time of that same Business Day. In the case of a Capacity Load Obligation Bilateral, the consequences described in clauses (i) and (ii) above shall apply if the Market Participant does not cure its default within one Business Day after notification that a Capacity Load Obligation Bilateral caused the default. Bilateral transactions that transfer Forward Reserve Obligations and Supplemental Availability Bilaterals are not subject to the provisions of this Section III.B.3(e).

4. Serial Notice and Suspension Penalties

If either (x) a Market Participant is suspended from the New England Markets because of a failure to satisfy its Financial Assurance Requirements in accordance with the provisions of the ISO New England Financial Assurance Policy or (y) a Market Participant receives more than five notices that its Market Credit Test Percentage, FTR Credit Test Percentage or Transmission Credit Test Percentage has exceeded 100 percent (100%) in any rolling 365-day period, then such Market Participant shall pay a \$1,000 penalty for such suspension and for each notice after the fifth notice in a rolling 365-day period. If a Market Participant receives a notice that its Market Credit Test Percentage, FTR Credit Test Percentage, or Transmission Credit Test Percentage has exceeded 100 percent (100%) in the same day, then only one of those notices will count towards the

five notice limit. All penalties paid under this paragraph shall be deposited in the Late Payment Account maintained under the ISO New England Billing Policy.

C. Additional Financial Assurance Requirements for Certain Municipal Market Participants

Notwithstanding the other provisions of the ISO New England Financial Assurance Policy and in addition to the other obligations hereunder, a Credit Qualifying Municipal Market Participant that is not a municipality (which, for purposes of this Section III.C, does not include an agency or subdivision of a municipality) must provide additional financial assurance in one of the forms described in Section X below in an amount equal to its FCM Financial Assurance Requirements at the time of calculation, unless either: (1) that Credit Qualifying Municipal Market Participant has a corporate Investment Grade Rating from one or more of the Rating Agencies; or (2) that Credit Qualifying Municipal Market Participant has an Investment Grade Rating from one or more of the Rating Agencies for all of its rated indebtedness; or (3) that Credit Qualifying Municipal Market Participant provides the ISO with an opinion of counsel that is acceptable to the ISO confirming that amounts due to the ISO under the Tariff have priority over, or have equal priority with, payments due on the debt on which the Credit Qualifying Municipal Market Participant's Investment Grade Rating is based. Each legal opinion provided under clause (3) of this Section III.C will be updated no sooner than 60 days and no later than 30 days before each reconfiguration auction that precedes a Capacity Commitment Period to which such legal opinion relates, and if that update is not provided or that update is not acceptable to the ISO, the applicable Credit Qualifying Municipal Market Participant must either satisfy one of the other clauses of this Section III.C or provide additional financial assurance in one of the forms described in Section X below in an amount equal to its FCM Financial Assurance Requirements at the time of calculation.

D. Inventoried Energy Program Financial Assurance Requirement

Notwithstanding the other provisions of the ISO New England Financial Assurance Policy and in addition to the other obligations hereunder, if any Market Participant has submitted a Forward Energy Inventory Election approved by the ISO under Section III.K.1.1 of the Tariff, such Market Participant shall be subject to the additional financial assurance requirements of this section. Any such Market Participant must provide additional financial assurance in one of the forms described in Section X below in an

amount equal to the Inventoried Energy Program Financial Assurance Requirement on or before December 1 of each program year. The Inventoried Energy Program Financial Assurance Requirement will be calculated on a daily basis for each program year, from December 1, 2023 through February 29, 2024 and separately from December 1, 2024 through February 28, 2025, as follows:

$$\text{IEP Financial Assurance Requirement} = \text{MAX}(0, \text{FE_MWh} - \text{Q_MWh}) * \text{D_95} * \text{MF} * \text{SPR}$$

Where:

FE_MWh = is the amount of Forward Energy Inventory elected by the Market Participant;

Q_MWh = is the maximum observed physical inventory over the prior 15 days;

D_95 = is the 95th percentile of observed Inventoried Energy Days, which for the 2023-2024 and 2024-2025 program years shall be 19;

MF = is the month factor, which shall be 100% for December, 87% for January, and 26% for February; and

SPR = spot payment rate = the \$/MWh rate used in the calculation of Inventoried Energy Spot Payments as described in Section III.K.3.2 of the Tariff.

IV. CERTAIN NEW AND RETURNING MARKET PARTICIPANTS REQUIREMENTS

A new Market Participant or a Market Participant other than an FTR-Only Customer, or a Governance Only Member whose previous membership as a Market Participant was involuntarily terminated due to a Financial Assurance Default or a payment default and, since returning, has been a Market Participant for less than six consecutive months (a “Returning Market Participant”) is required to provide the ISO, for three months in the case of a new Market Participant and six months in the case of a Returning Market Participant, financial assurance in one of the forms described in Section X below equal to any amount of additional financial assurance required to meet the capitalization requirements described in Section II.A.4 plus the greater of (a) its Financial Assurance Requirement or (b) its “Initial Market Participant Financial Assurance Requirement.” A new Market Participant’s or a Returning Market Participant’s Initial Market Participant Financial Assurance Requirement must be provided to the ISO no later than one Business Day before commencing activity in the New England Markets or commencing transmission service under the Tariff, and shall be determined by the following formula:

$$FAR = G + T + L + E$$

Where FAR is the Initial Market Participant Financial Assurance Requirement and G, T, L and E are determined by the following formulas:

$$G = (MW_g \times Hr_{DA} \times D \times 3.25) + (MW_g \times Hr_{MIS} \times S_2 \times 3.25);$$

Where:

$MW_g =$	Total nameplate capacity of the Market Participant's generation units that have achieved commercial operation;
$Hr_{DA} =$	The number of hours of generation that any such generation unit could be bid in the Day-Ahead Energy Market before it could be removed if such unit tripped, as determined by the ISO in its sole discretion;
$D =$	The maximum observed differential between Energy prices in the Day-Ahead and Real-Time Energy Markets during the prior calendar year ("Maximum Energy Price Differential"), as determined by the ISO in its sole discretion;
$Hr_{MIS} =$	The standard number of hours between generation and the issuance of initial Market Information Server ("MIS") settlement reports including projected generation activity for such units, as determined by the ISO in its sole discretion; and
$S_2 =$	The per MW amount assessed pursuant to Schedule 2 of Section IV.A of this Tariff, as determined by the ISO.
$T =$	$MW_t \times Hr_{MIS} \times (D + S_{2-3}) \times 3.25;$

Where: MW_t = Number of MWs to be traded in the New England Markets as reasonably projected by the new Market Participant or the Returning Market Participant;

Hr_{MIS} = The standard number of hours between generation and the issuance of initial MIS settlement reports including projected generation activity, as determined by the ISO in its sole discretion;

D = Maximum Energy Price Differential; and

S_{2-3} = The per MWh amount assessed pursuant to Schedules 2 and 3 of Section IV.A of the Tariff, as determined annually by the ISO.

$$L = (MW_1 \times LF \times Hr_{MIS} \times (EP + S_{2-3}) \times 3.25) + (MW_1 \times Hr_{MIS} \times TC \times 3.25)$$

Where:

MW_1 = MWs of Real-Time Load Obligation (as defined in Market Rule 1) of the new Market Participant or Returning Market Participant;

LF = Average load factor in New England, as determined annually by the ISO in its sole discretion;

Hr_{MIS} = The standard number of hours between generation and the issuance of initial MIS settlement reports including projected generation activity, as determined by the ISO in its sole discretion;

EP = The average price of Energy in the Day-Ahead Energy Market for the most recent calendar year for which information is available from the Annual Reports published by the ISO, as determined by the ISO in its sole discretion;

S_{2-3} = The per MW amount assessed pursuant to Schedules 2 and 3 of Section IV.A of the Tariff, as determined annually by the ISO; and

TC = The hourly transmission charges per MW_1 assessed under the Tariff (other than Schedules 1, 8 and 9 of Section II of the Tariff), as determined annually by the ISO.

$$E = (SE) \times 3.25$$

Where:

SE = Average monthly share of Participant Expenses for the applicable Sector.

If a new Market Participant's or a Returning Market Participant's Initial Market Participant Financial Assurance Requirement during the time period that it is subject to this Section IV is 80 percent or more of the available amount of the financial assurance provided by that new Market Participant or Returning Market Participant, it shall have the same effect as if such Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, or Transmission Credit Test Percentage equaled or exceeded 80 percent (80%) under Section III.B above.

If a new Market Participant's or a Returning Market Participant's Initial Market Participant Financial Assurance Requirement during the time period that it is subject to this Section IV is 90 percent or more of the available amount of the financial assurance provided by that new Market Participant or Returning Market Participant, it shall have the same effect as if such Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, or Transmission Credit Test Percentage equaled or exceeded 90 percent (90%) under Section III.B above.

If a new Market Participant's or a Returning Market Participant's Initial Market Participant Financial Assurance Requirement during the time period that it is subject to this Section IV exceeds 100 percent of the available amount of the financial assurance provided by that new Market Participant or Returning Market Participant, it shall have the same effect as if such Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, or Transmission Credit Test Percentage exceeded 100 percent (100%) under Section III.B above.

V. NON-MARKET PARTICIPANT TRANSMISSION CUSTOMERS REQUIREMENTS

A. Ongoing Financial Review and Credit Ratings

1. Rated Non-Market Participant Transmission Customer and Transmission Customers

Each Rated Non-Market Participant Transmission Customer that does not currently have an Investment Grade Rating must provide an appropriate form of financial assurance as described in Section X below.

2. Unrated Non-Market Participant Transmission Customers

Any Unrated Non-Market Participant Transmission Customer that (i) has defaulted on any of its obligations under the Tariff (including without limitation its obligations hereunder and under the ISO New England Billing Policy) during the immediately preceding 365-day period; or (ii) does not have a Current Ratio of at least 1.0, a Debt-to-Total Capitalization Ratio of 0.6 or less, and an EBITDA-to-Interest Expense Ratio of at least 2.0 must provide an appropriate form of financial assurance as described in Section X below. An Unrated Non-Market Participant Transmission Customer that does not meet either of the conditions described in clauses (i) and (ii) of this paragraph is referred to herein as satisfying the “NMPTC Credit Threshold.”

B. NMPTC Credit Limits

1. NMPTC Market Credit Limit

A Market Credit Limit shall be established for each Non-Market Participant Transmission Customer as set forth in this Section V.B.1.

The Market Credit Limit of each Rated Non-Market Participant Transmission Customer shall at any time be equal to the least of: (i) the applicable percentage of such Rated Non-Market Participant Transmission Customer’s Tangible Net Worth (as reflected in the following table); (ii) \$50 million; or (iii) 20 percent (20%) of TADO:

<u>Investment Grade Rating</u>		<u>Percentage of Tangible Net Worth</u>
S&P/Fitch	Moody’s	
AAA	Aaa	5.50%
AA+	Aa1	5.50%
AA	Aa2	4.50%
AA-	Aa3	4.00%
A+	A1	3.05%

A	A2	2.85%
A-	A3	2.60%
BBB+	Baa1	2.30%
BBB	Baa2	1.90%
BBB-	Baa3	1.20%
Below BBB-	Below Baa3	0.00%

The Market Credit Limit of each Unrated Non-Market Participant Transmission Customer that satisfies the NMPTC Credit Threshold shall at any time be equal to the least of: (i) 0.50 percent (0.50% or ½ of 1%) of such Unrated Non-Market Participant Transmission Customer's Tangible Net Worth, (ii) \$25 million or (iii) 20 percent (20%) of TADO. The Market Credit Limit of each Unrated Non-Market Participant Transmission Customer that does not satisfy the NMPTC Credit Threshold shall be \$0.

2. NMPTC Transmission Credit Limit

A Transmission Credit Limit shall be established for each Non-Market Participant Transmission Customer in accordance with this Section V.B.2.

The Transmission Credit Limit of each Rated Non-Market Participant Transmission Customer shall at any time be equal to the lesser of: (i) the applicable percentage of such Rated Non-Market Participant Transmission Customer's Tangible Net Worth as listed in the following table or (ii) \$50 million:

<u>Investment Grade Rating</u>		<u>Percentage of Tangible Net Worth</u>
S&P/Fitch	Moody's	
AAA	Aaa	5.50%
AA+	Aa1	5.50%
AA	Aa2	4.50%
AA-	Aa3	4.00%
A+	A1	3.05%
A	A2	2.85%
A-	A3	2.60%
BBB+	Baa1	2.30%
BBB	Baa2	1.90%

BBB-	Baa3	1.20%
Below BBB-	Below Baa3	0.00%

The Transmission Credit Limit of each Unrated Non-Market Participant Transmission Customer that satisfies the NMPTC Credit Threshold shall at any time be equal to the lesser of: (i) 0.50 percent (0.50% or ½ of 1%) of such Unrated Non-Market Participant Transmission Customer's Tangible Net Worth or (ii) \$25 million. The Transmission Credit Limit of each Unrated Non-Market Participant Transmission Customer that does not satisfy the NMPTC Credit Threshold shall be \$0.

3. NMPTC Total Credit Limit

The sum of a Non-Market Participant Transmission Customer's Market Credit Limit and Transmission Credit Limit shall not exceed \$50 million and the sum of the Market Credit Limits and Transmission Credit Limits of entities that are Affiliates shall not exceed \$50 million. No later than five Business Days prior to the first day of each calendar quarter, and no later than five Business Days after any Affiliate change, each Rated Non-Market Participant Transmission Customer that has a Market Credit Limit and a Transmission Credit Limit shall determine the amounts to be allocated to its Market Credit Limit (up to the amount set forth in Section V.B.1 above) and its Transmission Credit Limit (up to the amount set forth in Section V.B.2 above) such that the sum of its Market Credit Limit and its Transmission Credit Limit are equal to not more than \$50 million and such that the sum of the Market Credit Limits and Transmission Credit Limits of entities that are Affiliates do not exceed \$50 million and shall provide the ISO with that determination in writing. Each Rated Non-Market Participant Transmission Customer may provide such determination for up to four consecutive calendar quarters. If a Rated Non-Market Participant Transmission Customer does not provide such determination, then the ISO shall use the amounts provided for the previous calendar quarter. If no such determination is provided, then the ISO shall apply an allocation of \$25 million each to the Market Credit Limit and Transmission Credit Limit, which values shall also be used in allocating the \$50 million credit limit among Affiliates. If the sum of the amounts for Affiliates is greater than \$50 million, then the ISO shall reduce the amounts (proportionally to the amounts provided by each Affiliate, or to the allocation applied by the ISO in the case of an Affiliate that provided no determination) such that the sum is no greater than \$50 million.

C. Information Reporting Requirements for Non-Market Participant Transmission Customers

Each Rated Non-Market Participant Transmission Customer having a Market Credit Limit or Transmission Credit Limit greater than zero or meeting the capitalization requirements by maintaining a minimum Tangible Net Worth or minimum total assets as described in Section II.A.4(a) shall submit to the ISO, on a quarterly basis, within 10 days of their becoming available and within 65 days after the end of the applicable fiscal quarter of such Rated Non-Market Participant Transmission Customer, its balance sheet, which shall show sufficient detail for the ISO to assess the Rated Non-Market Participant Transmission Customer's Tangible Net Worth. In addition, each Rated Non-Market Participant Transmission Customer that has an Investment Grade Rating having a Market Credit Limit or Transmission Credit Limit greater than zero or meeting the capitalization requirements by maintaining a minimum Tangible Net Worth or minimum total assets as described in Section II.A.4(a) shall submit to the ISO, annually within 10 days of their becoming available and within 120 days after the end of the fiscal year of such Rated Non-Market Participant Transmission Customer, balance sheets and income statements (balance sheets and income statements that are part of audited financial statements shall be submitted if available; if such balance sheets and income statements are not available, then another alternative form of financial statements accepted by the ISO as described below may be submitted). If any of this financial information is available on the internet, the Rated Non-Market Participant Transmission Customer may provide instead a letter to the ISO stating where such information may be located and retrieved.

Each Unrated Non-Market Participant Transmission Customer having a Market Credit Limit or Transmission Credit Limit greater than zero or meeting the capitalization requirements by maintaining a minimum Tangible Net Worth or minimum total assets as described in Section II.A.4(a) shall submit to the ISO, on a quarterly basis, within 10 days of their becoming available and within 65 days after the end of the applicable fiscal quarter of such Unrated Non-Market Participant Transmission Customer, its balance sheet, which shall show sufficient detail for the ISO to assess the Unrated Non-Market Participant Transmission Customer's Tangible Net Worth. Unrated Non-Market Participant Transmission Customers having a Market Credit Limit or Transmission Credit Limit greater than \$0 shall also provide additional financial statements, which shall show

sufficient detail for the ISO to calculate such Unrated Non-Market Participant Transmission Customer's Current Ratio, Debt-to-Total Capitalization Ratio and EBITDA-to-Interest Expense Ratio. In addition, each such Unrated Non-Market Participant Transmission Customer that satisfies the Credit Threshold and has a Market Credit Limit or Transmission Credit Limit of greater than \$0 or meeting the capitalization requirements by maintaining a minimum Tangible Net Worth or minimum total assets as described in Section II.A.4(a) shall submit to the ISO, annually within 10 days of becoming available and within 120 days after the end of the fiscal year of such Unrated Non-Market Participant Transmission Customer balance sheets and income statements (balance sheets and income statements that are part of audited financial statements shall be submitted if available; if such balance sheets and income statements are not available, then another alternative form of financial statements accepted by the ISO as described below may be submitted). Where any of the above financial information is available on the internet, the Unrated Non-Market Participant Transmission Customer may provide the ISO with a letter stating where such information may be located and retrieved.

If any of the information or documentation required by this section is not available, alternate requirements may be specified by the ISO (such alternate requirements may include, but are not limited to: (i) consolidating statements or other financial statements (in the case of a stand-alone subsidiary) that are certified as to their accuracy and basis of accounting (in accordance with international accounting standards or generally accepted accounting principles in the United States) by an officer of the entity with the title of chief financial officer or equivalent position; (ii) reviewed statements; (iii) compiled statements; (iv) internally prepared statements; or (v) tax returns).

Except in the case of a Non-Market Participant Transmission Customer that submits audited financial statements to the ISO, financial statements submitted to the ISO pursuant to this Section V.C shall be accompanied by a written statement from a Senior Officer of the Non-Market Participant Transmission Customer certifying the accuracy of those financial statements. If an attestation was made by an independent accounting firm, then the written statement shall indicate the level of attestation made; if no attestation was made by an independent accounting firm, then no such indication is required.

Notwithstanding any other provision in this subsection, the ISO may require any Non-Market Participant Transmission Customer to submit the financial statements and other information described in this subsection. The Non-Market Participant Transmission Customer shall provide the requested statements and other information within 10 days of such request. If a Non-Market Participant Transmission Customer fails to provide financial statements or other information as requested and the ISO determines that the Non-Market Participant Transmission Customer poses an unreasonable risk to the New England Markets, then the ISO may request that the Non-Market Participant Transmission Customer provide additional financial assurance in an amount no greater than \$10 million, or take other measures to substantiate the Non-Market Participant Transmission Customer's ability to safely transact in the New England Markets (any additional financial assurance provided pursuant to this Section V.C shall not be counted toward satisfaction of the total financial assurance requirements as calculated pursuant to the ISO New England Financial Assurance Policy). If the Non-Market Participant Transmission Customer fails to comply with such a request from the ISO, then the ISO may issue a notice of suspension or termination to the Non-Market Participant Transmission Customer. If the Non-Market Participant Transmission Customer fails to comply with the ISO's request within 5 Business Days from the date of issuance of the notice of suspension or termination, then the ISO may suspend or terminate the Non-Market Participant Transmission Customer.

A Non-Market Participant Transmission Customer may choose not to submit financial statements as described in this Section V.C, in which case the ISO shall use a value of \$0.00 for the Non-Market Participant Transmission Customer's total assets and Tangible Net Worth for purposes of the capitalization assessment described in Section II.A.4(a) and such Non-Market Participant Transmission Customer's Market Credit Limit and Transmission Credit Limit shall be \$0.00.

A Non-Market Participant Transmission Customer may choose to provide additional financial assurance in an amount equal to \$10 million in lieu of providing financial statements under this Section V.C. Such amount shall not be counted toward satisfaction of the total financial assurance requirements as calculated pursuant to the ISO New England Financial Assurance Policy but shall be sufficient to meet the capitalization requirements in Section II.A.4(a)(iii).

D. Financial Assurance Requirement for Non-Market Participant Transmission Customers

Each Non-Market Participant Transmission Customer that provides additional financial assurance pursuant to the ISO New England Financial Assurance Policy must provide the ISO with financial assurance in one of the forms described in Section X below and in the amount described in this Section V.D (the “NMPTC Financial Assurance Requirement”).

1. Financial Assurance for ISO Charges

Each Non-Market Participant Transmission Customer must provide the ISO with additional financial assurance such that the sum of its Market Credit Limit and that additional financial assurance shall at all times be at least equal to the sum of:

- (i) two and one-half (2.5) times the average monthly Non-Hourly Charges for such Non-Market Participant Transmission Customer over the two most recently invoiced calendar months (which amount shall not in any event be less than \$0); plus
- (ii) amount of any unresolved Disputed Amounts received by such Non-Market Participant Transmission Customer.

2. Financial Assurance for Transmission Charges

Each Non-Market Participant Transmission Customer must provide the ISO with additional financial assurance hereunder such that the sum of (x) its Transmission Credit Limit and (y) the excess of (A) the available amount of the additional financial assurance provided by that Non-Market Participant Transmission Customer over (B) the amount of that additional financial assurance needed to satisfy the requirements of Section V.D.1 above is equal to two and one-half (2.5) times the average monthly Transmission Charges for such Non-Market Participant Transmission Customer over the two most recently invoiced calendar months (which amount shall not in any event be less than \$0)

3. Notice of Failure to Satisfy NMPTC Financial Assurance Requirement

A Non-Market Participant Transmission Customer that knows or can reasonably be expected to know that it is not satisfying its NMPTC Financial Assurance Requirement shall notify the ISO immediately of that fact. Without limiting the availability of any other remedy or right hereunder, failure by any Non-Market Participant Transmission

Customer to comply with the provisions of the ISO New England Financial Assurance Policy (including failure to satisfy its NMPTC Financial Assurance Requirement) may result in the commencement of termination of service proceedings against that non-complying Non-Market Participant Transmission Customer.

VI. ADDITIONAL PROVISIONS FOR FTR TRANSACTIONS

Market Participants must complete an ISO-prescribed training course prior to participating in the FTR Auction. All Market Participants transacting in the FTR Auction that are otherwise required to provide additional financial assurance under the ISO New England Financial Assurance Policy, including all FTR-Only Customers (“Designated FTR Participants”) are required to provide financial assurance in an amount equal to the sum of the FTR Settlement Risk Financial Assurance, the Unsettled FTR Financial Assurance, and the Settlement Financial Assurance, each as described in this Section VI (such sum being referred to in the ISO New England Financial Assurance Policy as the “FTR Financial Assurance Requirements”).

A. FTR Settlement Risk Financial Assurance

A Designated FTR Participant is required to provide “FTR Settlement Risk Financial Assurance” for each bid it submits into an FTR Auction and for each FTR that is awarded to it in an FTR Auction, as described below.

After bids are finalized for an FTR Auction, but before the auction results are final, a Designated FTR Participant must provide FTR Settlement Risk Financial Assurance based on its bids for each FTR path. The ISO will calculate an FTR Settlement Risk Financial Assurance amount for each direction (prevailing flow and counter flow) of each FTR path on which the Designated FTR Participant has bid, equal to the total number of MW bid for that direction of the FTR path multiplied by the applicable proxy value for the FTR path (as described below) multiplied by the number of hours associated with the bid. For that FTR path, the Designated FTR Participant must provide FTR Settlement Risk Financial Assurance equal to the higher of the amounts calculated for each direction.

Once an FTR Auction’s results are final, a Designated FTR Participant must provide FTR Settlement Risk Financial Assurance based on awarded FTRs, equal to the MW value of each awarded FTR multiplied by the applicable proxy value for the FTR path (as described below) multiplied by the number of hours associated with the FTR. For

purposes of this calculation, the ISO will net the MW values of a Designated FTR Participant's awarded FTRs having the same or opposite path, same contract month, and same type (on-peak or off-peak). For purposes of this netting, annual FTRs may be converted into monthly positions.

The proxy value for each FTR path, which shall be calculated separately for on-peak and off-peak FTRs, will be based on the standard deviation observed in the difference between the average congestion components of the Locational Marginal Price in the Day-Ahead Energy Market at the path's sink and source for the previous 36 months, with differing multipliers for annual and monthly FTRs and for prevailing flow and counter flow paths. These multipliers will be reviewed and approved by the NEPOOL Budget and Finance Subcommittee and shall be posted on the ISO's website. Where there is insufficient data to perform these calculations for a node, zonal data will be used instead.

FTR Settlement Risk Financial Assurance will be adjusted as the awarded FTRs are settled. In no event will the FTR Settlement Risk Financial Assurance be less than \$0.

B. Unsettled FTR Financial Assurance

A Designated FTR Participant is required to maintain, at all times, "Unsettled FTR Financial Assurance" for all FTRs awarded to it in any FTR Auctions. Immediately after FTRs are awarded in an FTR Auction, the Unsettled FTR Financial Assurance for those FTRs shall be zero. After subsequent FTR Auctions, the Unsettled FTR Financial Assurance for each FTR awarded in a previous FTR Auction shall be adjusted to reflect any change in the clearing price for that FTR based on non-zero volume. The adjustment will be equal to the change in the clearing price multiplied by the number of MW of the previously awarded FTR, with increases in the clearing price reducing the Unsettled FTR Financial Assurance amount and decreases in the clearing price increasing the Unsettled FTR Financial Assurance amount. For purposes of these calculations, the ISO will consider FTRs having the same or opposite path, same contract month, and same type (on-peak or off-peak) together. A Designated FTR Participant's Unsettled FTR Financial Assurance may be a charge or a credit, and in the case of a credit, may offset the Designated FTR Participant's other FTR Financial Assurance Requirements (but not to less than zero). A Designated FTR Participant's Unsettled FTR Financial Assurance will be adjusted as the awarded FTRs are settled.

C. Settlement Financial Assurance

A Designated FTR Participant that has been awarded a bid in an FTR Auction is required to provide “Settlement Financial Assurance.” The amount of a Designated FTR Participant’s Settlement Financial Assurance shall be equal to the amount of any settled but uninvoiced Charges incurred by such Designated FTR Participant for FTR transactions less the settled but uninvoiced amounts due to such Market Participant for FTR transactions. These amounts shall include the costs of acquiring FTRs as well as payments and charges associated with FTR settlement.

D. Consequences of Failure to Satisfy FTR Financial Assurance Requirements

If a Designated FTR Participant does not have additional financial assurance equal to its FTR Financial Assurance Requirements (in addition to its other financial assurance obligations hereunder) in place at the time an FTR Auction into which it has bid closes, then, in addition to the other consequences described in the ISO New England Financial Assurance Policy, all bids submitted by that Designated FTR Participant for that FTR Auction will be rejected. The Designated FTR Participant will be allowed to participate in the next FTR Auction held provided it meets all requirements for such participation, including without limitation those set forth herein. Each Designated FTR Participant must maintain the requisite additional financial assurance equal to its FTR Financial Assurance Requirements for the duration of the FTRs awarded to it. The amount of any additional financial assurance provided by a Designated FTR Participant in connection with an unsuccessful bid in an FTR Auction which, as a result of such bid being unsuccessful, is in excess of its FTR Financial Assurance Requirements will be held by the ISO and will be applied against future FTR bids by and awards to that Designated FTR Participant unless that Designated FTR Participant requests in writing to have such excess financial assurance returned to it. Prior to returning any financial assurance to a Designated FTR Participant, the ISO shall use such financial assurance to satisfy any overdue obligations of that Designated FTR Participant. The ISO shall only return to that Designated FTR Participant the balance of such financial assurance after all such overdue obligations have been satisfied.

VII. ADDITIONAL PROVISIONS FOR FORWARD CAPACITY MARKETS

Any Lead Market Participant, including any Provisional Member that is a Lead Market Participant, transacting in the Forward Capacity Market that is otherwise required to provide additional financial assurance under the ISO New England Financial Assurance Policy (each a “Designated FCM Participant”), is required to provide additional financial assurance meeting the requirements of Section X below in the amounts described in this Section VII (such amounts being referred to in the ISO New England Financial Assurance Policy as the “FCM Financial Assurance Requirements”). If the Lead Market Participant for a Resource changes, then the new Lead Market Participant for the Resource shall become the Designated FCM Participant.

A. FCM Delivery Financial Assurance

Each Designated FCM Participant that has a Capacity Supply Obligation for the Capacity Commitment Period associated with the sixteenth Forward Capacity Auction or any Capacity Commitment Period thereafter, shall be subject to a “Corporate Liquidity Assessment” as described in this Section VII.A to determine its FCM Delivery Financial Assurance.

1. FCM Delivery Financial Assurance Calculation

A Designated FCM Participant must include, for the Capacity Supply Obligation of each resource in its portfolio other than the Capacity Supply Obligation associated with any Energy Efficiency measures, FCM Delivery Financial Assurance in the calculation of its FCM Financial Assurance Requirements under the ISO New England Financial Assurance Policy. If a Designated FCM Participant’s FCM Delivery Financial Assurance is negative, it will be used to reduce the Designated FCM Participant’s Financial Assurance Obligations (excluding FTR Financial Assurance Requirements), but not to less than zero.

FCM Delivery Financial Assurance is calculated according to the following formula for a Designated FCM Participant that has a Capacity Supply Obligation up to and including the end of the Capacity Commitment Period associated with the fifteenth Forward Capacity Auction:

FCM Delivery Financial Assurance = [DFAMW x PE x max[(ABR – CWAP), 0.1] x SF]
– IMC – MCC

FCM Delivery Financial Assurance is calculated according to the following applicable formula for a Designated FCM Participant that has a Capacity Supply Obligation commencing at the beginning of the Capacity Commitment Period associated with the sixteenth Forward Capacity Auction and every Capacity Commitment Period thereafter. The applicable FCM Delivery Financial Assurance formula is determined by the results of a Corporate Liquidity Assessment and is limited by the operation of the applicable stop-loss mechanisms as set forth in Market Rule 1 (including those that may apply in the next Capacity Commitment Period).

Corporate Liquidity Assessment Result: Low Risk

$$\text{FCM Delivery Financial Assurance} = [\text{DFAMW} \times \text{PE} \times \max[(\text{ABR} - \text{CWAP}), 0.1] \times \text{SF}] - \text{IMC} - \text{MCC}$$

Corporate Liquidity Assessment Result: Medium Risk

$$\text{FCM Delivery Financial Assurance} = [\text{DFAMW} \times \text{PE} \times \max[(\text{ABR} - \text{CWAP}), 0.1] \times \text{SF}] - \text{IMC} - \text{MCC} - \text{Peak Monthly Stop-loss} \times \max[(\text{ABR} - \text{CWAP}), 0.1]$$

Corporate Liquidity Assessment Result: High Risk

$$\begin{aligned} \text{FCM Delivery Financial Assurance} = & [\text{DFAMW} \times \text{PE} \times \max[(\text{ABR} - \text{CWAP}), 0.1] \times \text{SF}] - \text{IMC} - \text{MCC} - \text{Peak Monthly Stop-loss} \times \max[(\text{ABR} - \text{CWAP}), 0.1] \\ & - \text{Second Largest Monthly Stop-loss} \times \max[(\text{ABR} - \text{CWAP}), 0.1] \end{aligned}$$

Where:

MCC (monthly capacity charge) equals monthly capacity payments incurred in previous months, but not yet billed. The MCC is estimated from the first day of the current delivery month until it is replaced by the actual settled MCC value when settlement is complete.

IMC (intra-month collateral) equals estimated monthly capacity payments incurred during the current delivery month as limited by the difference (which shall in no event be less than zero) between (A) the minimum of the applicable monthly stop-loss and the remaining annual stop-loss as described in Section III.13.7.3.1 and Section III.13.7.3.2 of Market Rule 1, respectively, and (B) the amount of additional FCM Delivery Financial Assurance when considering the Designated FCM Participant's current month FCM

Delivery Financial Assurance obligation as compared to the Designated FCM Participant's next month FCM Delivery Financial Assurance obligation, in each case without giving effect to the IMC and MCC variables when calculating such additional amount. and, Where the estimated monthly capacity payments for each Designated FCM Participant, shall be updated three (3) days after publication of the most recent FCM Preliminary Capacity Performance Score report (or equivalent report) on the Market Information Server ~~and shall be limited by the monthly stop-loss as described in Section III.13.7.3.1 of Market Rule 1.~~

DFAMW (delivery financial assurance MW) equals the sum of the Capacity Supply Obligations of each resource in the Designated FCM Participant's portfolio for the month, excluding the Capacity Supply Obligation of any resource that has reached the annual stop-loss as described in Section III.13.7.3.2 of Market Rule 1. If the calculated DFAMW is less than zero, then the DFAMW will be set equal to zero.

PE (potential exposure) is a monthly value calculated for the Designated FCM Participant's portfolio as the difference between the Capacity Supply Obligation weighted average Forward Capacity Auction Starting Price and the Capacity Supply Obligation weighted average capacity price for the portfolio, excluding the Capacity Supply Obligation of any resource that has reached the annual stop-loss as described in Section III.13.7.3.2 of Market Rule 1. The Forward Capacity Auction Starting Price shall correspond to that used in the Forward Capacity Auction corresponding to the current Capacity Commitment Period and the capacity prices shall correspond to those used in the calculation of the Capacity Base Payment for each Capacity Supply Obligation in the delivery month.

In the case of a resource subject to a multi-year Capacity Commitment Period election made in a Forward Capacity Auction prior to the ninth Forward Capacity Auction as described in Sections III.13.1.1.2.2.4 and III.13.1.4.1.1.2.7 of Market Rule 1, the Forward Capacity Auction Starting Price shall be replaced with the applicable Capacity Clearing Price (indexed for inflation) in the above calculation until the multi-year election period expires.

ABR (average balancing ratio) is the duration-weighted average of all of the system-wide Capacity Balancing Ratios calculated for each system-wide Capacity Scarcity Condition occurring in the relevant group of months in the three Capacity Commitment Periods immediately preceding the current Capacity Commitment Period and those occurring in the months within the relevant group that are prior to the current month of the current Capacity Commitment Period. Three separate groups of months shall be used for this purpose: June through September, December through February, and all other months. Until data exists to calculate this number, the temporary ABR for June through September shall equal 0.90; the temporary ABR for December through February shall equal 0.70; and the temporary ABR for all other months shall equal 0.60. As actual data becomes available for each relevant group of months, calculated values for the relevant group of months will replace the temporary ABR values after the end of each group of months each year until all ABR values reflect actual data.

CWAP (capacity weighted average performance) is the capacity weighted average performance of the Designated FCM Participant's portfolio. For each resource in the Designated FCM Participant's portfolio, excluding any resource that has reached the annual stop-loss as described in Section III.13.7.3.2 of Market Rule 1, and excluding from the remaining resources the resource having the largest Capacity Supply Obligation in the month, the resource's Capacity Supply Obligation shall be multiplied by the average performance of the resource. The CWAP shall be the sum of all such values, divided by the Designated FCM Participant's DFAMW. If the DFAMW is zero, then the CWAP is set equal to one.

The average performance of a resource is the Actual Capacity Provided during Capacity Scarcity Conditions divided by the product of the resource's Capacity Supply Obligation and the equivalent hours of Capacity Scarcity Conditions in the relevant group of months in the three Capacity Commitment Periods immediately preceding the current Capacity Commitment Period and those occurring in the months within the relevant group that are prior to the current month of the current Capacity Commitment Period. Three separate groups of months shall be used for this purpose: June through September, December through February, and all other months. Until data exists to calculate this number, the temporary average performance for gas-fired steam generating resources, combined-cycle combustion turbines and simple-cycle combustion turbines shall equal 0.90; the

temporary average performance for coal-fired steam generating resources shall equal 0.85; the temporary average performance for oil-fired steam generating resources shall equal 0.65; the temporary average performance for all other resources shall equal 1.00. As actual data for each resource becomes available for each relevant group of months, calculated values for the relevant group of months will replace the temporary average performance values after the end of each group of months each year until all average performance values reflect actual data. The applicable temporary average performance value will be used for new and existing resources until actual performance data is available.

SF (scaling factor) is a month-specific multiplier, as follows:

June and December	2.000;
July and January	1.732;
August and February	1.414;
All other months	1.000.

Peak Monthly Stop-loss equals the largest monthly stop-loss for the Designated FCM Participant that would occur during the period from the current delivery month through the following five consecutive months, where each monthly stop-loss is equal to the sum of the monthly stop-losses of each resource in the Designated FCM Participant's portfolio as described in Section III.13.7.3.1 of Market Rule 1.

Second Largest Monthly Stop-loss equals the second largest monthly stop-loss for the Designated FCM Participant that would occur during the period from the current delivery month through the following five consecutive months, where each monthly stop-loss is equal to the sum of the monthly stop-losses of each resource in the Designated FCM Participant's portfolio as described in Section III.13.7.3.1 of Market Rule 1.

2. Corporate Liquidity Assessment Methodology

The ISO will perform a "Corporate Liquidity Assessment" to determine the appropriate liquidity risk assessment category for each Designated FCM Participant (i.e., low risk, medium risk, or high risk) that has a Capacity Supply Obligation for the Capacity Commitment Period associated with the sixteenth Forward Capacity Auction or any Capacity Commitment Period thereafter.

(a) For each Designated FCM Participant, the Corporate Liquidity Assessment shall be performed as follows:

- When the Available Corporate Liquidity is greater than or equal to the sum of the three largest Applicable Monthly Stop-losses during the Calculation Period, the Designated FCM Participant shall be considered low risk;
- When the Available Corporate Liquidity is less than the sum of the three largest but greater than or equal to the sum of the two largest Applicable Monthly Stop-losses during the Calculation Period, the Designated FCM Participant shall be considered medium risk; and
- When the Available Corporate Liquidity is less than the sum of the two largest Applicable Monthly Stop-losses during the Calculation Period, the Designated FCM Participant shall be considered high risk.

(b) For Designated FCM Participants that have provided a guaranty (in accordance with this Section VII.A) from the same Affiliate, or for Designated FCM Participants that are also providing a guaranty (in accordance with this Section VII.A) for an Affiliate:

- The respective Designated FCM Participants will be assessed as a whole and will be collectively assigned one Corporate Liquidity Assessment result (i.e., low risk, medium risk, or high risk);
- When the Available Corporate Liquidity is greater than or equal to the sum of the three largest aggregated Applicable Monthly Stop-losses during the Calculation Period, each Designated FCM Participant in the collective assessment is considered low risk;
- When the Available Corporate Liquidity is less than the sum of the three largest aggregated Applicable Monthly Stop-losses but is greater than or equal to the sum of two largest aggregated Applicable Monthly Stop-losses during the Calculation Period, each Designated FCM Participant in the collective assessment is considered medium risk; and
- When the Available Corporate Liquidity is less than the sum of the two largest aggregated Applicable Monthly Stop-losses during the Calculation Period, each Designated FCM Participant in the collective assessment is considered high risk.

(c) For Designated FCM Participants that have provided a guaranty (in accordance with this Section VII.A) from multiple Affiliates:

- The guarantors' financial statements will be considered on an aggregate basis for purposes of the Available Corporate Liquidity calculation taking into account other guaranties provided by any such guarantor under this Section VII.A.

Where:

Calculation Period is the current delivery month through the following five consecutive months.

The Applicable Monthly Stop-loss equals the sum of the monthly stop-losses for each resource in a Designated FCM Participant's portfolio as described in Section III.13.7.3.1 of Market Rule 1 for the corresponding months within the Calculation Period.

Available Corporate Liquidity is the sum of unrestricted cash and cash equivalents; marketable securities and money market instruments; undrawn committed credit facilities not expiring within three months of the date of the applicable financial statements; and excess financial assurance. Other than with respect to excess financial assurance, such values shall be (a) as reflected on the most recent financial statements provided by the Designated FCM Participant, provided that such financial statements were provided for the most recently completed financial reporting period and compliant with the requirements of this Section VII.A, and (b) calculated in accordance with international accounting standards or generally accepted accounting principles in the United States at the time of determination consistently applied. Excess financial assurance shall be calculated as any financial assurance (in an acceptable form in accordance with Section X) provided by the Designated FCM Participant covering its FCM Delivery Financial Assurance obligations plus any financial assurance (in an acceptable form in accordance with Section X) provided by the Designated FCM Participant in excess of its total Financial Assurance Obligations, each as reflected in the ISO's Financial Assurance Management (FAM) or equivalent system.

For the avoidance of doubt, the components of the Available Corporate Liquidity calculation that are derived from financial statements shall be based on the financial

statements of the Designated FCM Participant unless it provides an Affiliate guaranty in compliance with this Section VII.A, in which case the values shall be based on the financial statements of the entity(ies) providing the guaranty. If an acceptable Affiliate guaranty is provided, stop-loss and excess financial assurance values will still be based on the Designated FCM Participant.

Each Designated FCM Participant shall submit to the ISO, on a quarterly basis, its (or its guarantor's, as applicable) audited or unaudited balance sheet or equivalent financial statements, which shall show sufficient detail for the ISO to assess the Designated FCM Participant's (or guarantor's, as applicable) Available Corporate Liquidity. Such financial information shall be accompanied by a certificate from a Senior Officer of the Designated FCM Participant (or guarantor as applicable) that provides the relevant financial information and certifies the accuracy of the attached financial statements. If an attestation was made by an independent accounting firm, then the certificate shall indicate the level of attestation made; if no attestation was made by an independent accounting firm, then no such indication is required. The ISO shall post a generally acceptable "clean" form of certificate on its website. Financial statements provided on a quarterly basis shall be submitted within 10 days of such statements becoming available and within 65 days after the end of the applicable fiscal quarter.

Designated FCM Participants that are assessed as medium risk or high risk may elect to provide financial statements on a monthly basis until such a time as they are subsequently assessed as a lower risk category (e.g., from high risk to medium risk, medium risk to low risk, or high risk to low risk); provided that such election shall be for a minimum period of six continuous months during which they are continuously assessed at a lower risk category. Financial statements submitted on a monthly basis are required to be provided to the ISO within 20 days after the end of the prior month and otherwise be provided in accordance with this Section VII.A.

A Designated FCM Participant may choose not to submit financial statements as described in this Section VII.A. If a Designated FCM Participant chooses not to submit financial statements as described in this Section VII.A or if such financial statements are not compliant with the requirements described in this Section VII.A, the ISO shall use a

value of \$0.00 for Available Corporate Liquidity values derived from financial statements until such time as compliant financial statements are provided.

The ISO shall review the information provided pursuant to this Section VII.A on a rolling basis and will calculate the Available Corporate Liquidity within a reasonable time period which shall not exceed 30 Business Days from the date of receipt.

3. FCM Affiliate Guaranties

For the purposes of the Corporate Liquidity Assessment, a Designated FCM Participant may provide an unconditional, irrevocable guaranty from an Affiliate to the ISO guaranteeing the payment of all Capacity Performance Payments owed by the Designated FCM Participant. Upon the ISO's acceptance of an Affiliate guaranty, the guarantor(s) must provide financial statements in accordance with this Section VII.A, and the Corporate Liquidity Assessment will be performed based on the financial information of the guarantor(s). The ISO will post a generally acceptable sample "clean" guaranty on its website, and all guaranties provided pursuant to this Section VII.A shall be in such form with only non-material changes (as determined by the ISO in its sole discretion). The ISO in its sole discretion may update the form guaranty from time to time. The ISO has the right to draw upon the guaranty in the event of a default under the ISO New England Billing Policy up to any amount owed for unpaid Capacity Performance Payments. At any time, the ISO may in its sole discretion provide notice to a Designated FCM Participant that it is choosing to reject or terminate its Affiliate guaranty because such guaranty presents unreasonable risk to the ISO or the New England Markets. In the case of a termination (or planned termination), upon the ISO providing such notice the guaranty shall not be considered for purposes of such Designated FCM Participant's Corporate Liquidity Assessment beginning at 8:30 a.m. on the next Business Day, provided that the ISO may, in its sole discretion, extend this period by up to twenty (20) Business Days. For the avoidance of doubt, notice from the ISO to the Designated FCM Participant that the guaranty its Affiliate provided is being terminated (or will be terminated), does not constitute a termination notice under such guaranty and the ISO, in its sole discretion, may choose when to send the applicable termination notice under the terms of such guaranty.

In the ISO's sole discretion, a Designated FCM Participant may provide an unconditional, irrevocable guaranty from multiple Affiliates to the ISO guaranteeing the payment of all Capacity Performance Payments owed by the Designated FCM Participant, so long as such guaranty is otherwise in accordance with this Section VII.A and the guarantors have joint and several liability under such guaranty.

B. Non-Commercial Capacity

Notwithstanding any provision of this Section VII to the contrary, a Designated FCM Participant offering Non-Commercial Capacity for a Resource that elected existing Resource treatment for the Capacity Commitment Period beginning June 1, 2010 will not be subject to the provisions of this Section VII.B with respect to that Resource (other than financial assurance obligations relating to transfers of Capacity Supply Obligations).

1. FCM Deposit

A Designated FCM Participant offering Non-Commercial Capacity into any upcoming Forward Capacity Auction must include in the calculation of its FCM Financial Assurance Requirements under the ISO New England Financial Assurance Policy, beginning at 8 a.m. (Eastern Time) on the fifth (5th) Business Day after its qualification for such auction under Market Rule 1, an amount equal to \$2/kW times the Non-Commercial Capacity qualified for such Forward Capacity Auction by such Designated FCM Participant (the "FCM Deposit").

2. Non-Commercial Capacity in Forward Capacity Auctions

a. [Reserved for Future Use]

b. Non-Commercial Capacity Participating in Forward Capacity Auctions

A Designated FCM Participant offering Non-Commercial Capacity into the Forward Capacity Auction must include in the calculation of its FCM Financial Assurance Requirements under the ISO New England Financial Assurance Policy, beginning at 8 a.m. (Eastern Time) on the tenth Business Day prior to the Forward Capacity Auction an amount calculated according to the following formula:

Non-Commercial Capacity Financial Assurance Amount = (NCC x NCCFCA\$ x Multiplier) – FCM Deposit

Where:

NCC = the amount of Qualified Capacity that the ISO has qualified for the Designated FCM Participant for the Forward Capacity Auction minus any Commercial Capacity

NCCFCA\$ = the Net CONE associated with the Forward Capacity Auction for which the NCC has qualified (adjusted as described in Section III.13.2.4).

Multiplier = one if the auction occurs within 40 months of the commencement of the Capacity Commitment Period for which the NCC has qualified; two if the auction occurs within 28 months of the commencement of the Capacity Commitment Period for which the NCC has qualified; and three if the auction begins within 16 months of the commencement of the Capacity Commitment Period for which the NCC has qualified.

FCM Deposit = \$2/kW times the Non Commercial Capacity qualified for such Forward Capacity Auction by such Designated FCM Participant

Upon completion of the Forward Capacity Auction, the Non-Commercial Capacity Financial Assurance Amount shall be recalculated according to the following formula:

Non-Commercial Capacity Financial Assurance Amount = (NCC x NCCFCA\$ x Multiplier) + NCC Trading FA

Where:

NCC = the Capacity Supply Obligation awarded to the Designated FCM Participant in the Forward Capacity Auction minus any Commercial Capacity

For Capacity Supply Obligations acquired in Forward Capacity Auctions up to and including the thirteenth Forward Capacity Auction, NCCFCA\$ = the Capacity Clearing Price from the first run of the auction-clearing process of the Forward Capacity Auction in which the Capacity Supply Obligation was awarded. For Capacity Supply Obligations

acquired in the fourteenth Forward Capacity Auction and all Forward Capacity Auctions thereafter, $NCCFCA\$ = \text{the Net CONE associated with the Forward Capacity Auction in which the Capacity Supply Obligation was awarded (adjusted as described in Section III.13.2.4).}$

Multiplier = one beginning at 8 a.m. (Eastern Time) on the first Business Day occurring within 40 months of the commencement of the Capacity Commitment Period for which the Capacity Supply Obligation was awarded; two beginning at 8 a.m. (Eastern Time) on the first Business Day occurring within 28 months of the commencement of the Capacity Commitment Period for which the Capacity Supply Obligation was awarded; and three beginning at 8 a.m. (Eastern Time) on the first Business Day occurring within 16 months of the commencement of the Capacity Commitment Period for which the Capacity Supply Obligation was awarded.

In the case of Non-Commercial Capacity that fails to become commercial by the commencement of the Capacity Commitment Period associated with the Forward Capacity Auction in which it was awarded a Capacity Supply Obligation, the Non-Commercial Capacity Financial Assurance Amount shall be recalculated as follows: beginning at 8 a.m. (Eastern Time) on the first Business Day of the second month of the Capacity Commitment Period associated with the Forward Capacity Auction in which the Capacity Supply Obligation was awarded, the Multiplier in the recalculation of the Non-Commercial Capacity Financial Assurance Amount shall be four. The Multiplier in the recalculation of the Non-Commercial Capacity Financial Assurance Amount shall increase by one every six months thereafter until the Non-Commercial Capacity becomes commercial or the Capacity Supply Obligation is terminated.

For Capacity Supply Obligations acquired in Forward Capacity Auctions up to and including the twelfth Forward Capacity Auction, $NCC \text{ Trading FA} = \text{zero}$. For Capacity Supply Obligations acquired in the thirteenth Forward Capacity Auction and all Forward Capacity Auctions thereafter, $NCC \text{ Trading FA}$ shall be zero until the start of the applicable Capacity Commitment Period, at which time $NCC \text{ Trading FA}$ shall be calculated as described below, except that in no case shall $NCC \text{ Trading FA}$ be less than zero:

- (a) the total amount of NCC that has been shed (whether before or after the start of the Capacity Commitment Period) in any reconfiguration auctions or Capacity Supply Obligation Bilaterals or that is subject to a failure to cover charge pursuant to Section III.13.3.4(b) (but this total amount shall not be greater than NCC); multiplied by
- (b) the difference between: (x) the weighted average price at which the Capacity Supply Obligation was acquired in the Forward Capacity Auction (adjusted, where appropriate, in accordance with the Handy-Whitman Index of Public Utility Construction Costs); and (y) the weighted average price or failure to cover charge rate at which the Capacity Supply Obligation was shed or assessed, as applicable, except that for monthly Capacity Supply Obligation Bilaterals, one of the following prices will be used:
 - (i) If the Designated FCM Participant does not certify to the ISO that it has not entered into any contract or other transaction with another party regarding the pricing of such Capacity Supply Obligation Bilateral (other than those to be settled by the ISO) that has the effect of deflating its NCC Trading FA, then the lower of: (1) the applicable monthly reconfiguration auction price, and (2) the Capacity Supply Obligation Bilateral price shall be used;
 - (ii) If the Designated FCM Participant provides the certification described in subsection (i) above, is the Capacity Transferring Resource, and is an Affiliate of the Capacity Acquiring Resource, then the lower of: (1) the Capacity Supply Obligation Bilateral price, and (2) the applicable Capacity Clearing Price (adjusted, where appropriate, in accordance with the Handy-Whitman Index of Public Utility Construction Costs) shall be used; or
 - (iii) If neither subsection (i) nor (ii) applies, then the Capacity Supply Obligation Bilateral price shall be used.

plus

- (c) the quantity of any Annual Reconfiguration Transactions associated with NCC for the relevant Capacity Commitment Period in which the Designated FCM Participant is the Capacity Transferring Resource (but this amount shall not be greater than NCC) multiplied by the difference between: (x) the

applicable annual reconfiguration auction clearing price, and (y) the transaction price, which shall equal one of the following:

- (i) If the Designated FCM Participant does not certify to the ISO that it has not entered into any contract or other transaction with another party regarding the pricing of such Annual Reconfiguration Transaction (other than those to be settled by the ISO) that has the effect of deflating its NCC Trading FA, the transaction price shall be equal to the lower of: (1) the applicable annual reconfiguration auction clearing price, and (2) the applicable Annual Reconfiguration Transaction price;
- (ii) If the Designated FCM Participant provides the certification described in subsection (i) above, is the Capacity Transferring Resource, and is an Affiliate of the Capacity Acquiring Resource, then the transaction price shall be equal to the lower of: (1) the applicable Annual Reconfiguration Transaction price, and (2) the applicable Capacity Clearing Price (adjusted, where appropriate, in accordance with the Handy-Whitman Index of Public Utility Construction Costs); or
- (iii) If neither subsection (i) nor (ii) applies, then the applicable Annual Reconfiguration Transaction price shall be used.

c. Non-Commercial Capacity Deferral

Where the Commission approves a request to defer a Capacity Supply Obligation filed pursuant to Section III.13.3.7 of Market Rule 1, the Designated FCM Participant must include in the calculation of its FCM Financial Assurance Requirements under the ISO New England Financial Assurance Policy, beginning at 8 a.m. (Eastern Time) 30 days after Commission approval of the request to defer, an amount equal to the amount that would apply to a resource that has not achieved commercial operation one year after the start of a Capacity Commitment Period in which it has a Capacity Supply Obligation, as calculated pursuant to Section VII.B.2.a or Section VII.B.2.b, as applicable.

3. Return of Non-Commercial Capacity Financial Assurance

Non-Commercial Capacity cleared in a Forward Capacity Auction up to and including the eighth Forward Capacity Auction that is declared commercial and has had its capacity rating verified by the ISO or otherwise becomes a Resource meeting the definition of Commercial Capacity, or that is declared commercial and had a part of its capacity rating verified by the ISO and the applicable Designated FCM Participant indicates no additional portions of that Resource will become commercial, that portion of the Resource shall no longer be considered Non-Commercial Capacity under the ISO New England Financial Assurance Policy and will instead become subject to the provisions of the ISO New England Financial Assurance Policy relating to Commercial Capacity; provided that in either such case, the Designated FCM Participant will need to include in the calculation of its Financial Assurance Requirement an amount attributable to any remaining Non-Commercial Capacity.

Once Non-Commercial Capacity associated with a Capacity Supply Obligation awarded in the ninth Forward Capacity Auction and all Forward Capacity Auctions thereafter becomes commercial, the Non-Commercial Capacity Financial Assurance Amount for any remaining Non-Commercial Capacity shall be recalculated according to the process outlined above for Non-Commercial Capacity participating in the ninth Forward Capacity Auction and all Forward Capacity Auctions thereafter.

4. Credit Test Percentage Consequences for Provisional Members

If a Provisional Member is required to provide additional financial assurance under the ISO New England Financial Assurance Policy solely in connection with (A) a supply offer of Non-Commercial Capacity into any Forward Capacity Auction and (B) its obligation to pay Participant Expenses as a Provisional Member, and that Provisional Member is maintaining the amount of additional financial assurance required under the ISO New England Financial Assurance Policy, then the provisions of Section III.B of the ISO New England Financial Assurance Policy relating to the consequences of that Market Participant's Market Credit Test Percentage equaling 80 percent (80%) or 90 percent (90%) shall not apply to that Provisional Member.

C. [Reserved for Future Use]

D. Loss of Capacity and Forfeiture of Non-Commercial Capacity Financial Assurance

If a Designated FCM Participant that has acquired Capacity Supply Obligations associated with Non-Commercial Capacity is in default under the ISO New England Financial Assurance Policy or the ISO New England Billing Policy and does not cure such default within the appropriate cure period, or if a Designated FCM Participant is in default under the ISO New England Financial Assurance Policy or the ISO New England Billing Policy during the period between the day that is three Business Days before the FCM Deposit is required and the first day of the Forward Capacity Auction and does not cure such default within the appropriate cure period, then: (i) beginning with the first Business Day following the end of such cure period that Designated FCM Participant will be assessed a default charge of one percent (1%) of its total Non-Commercial Capacity Financial Assurance Amount at that time for each Business Day that elapses until it cures its default; and (ii) if such default is not cured by 5:00 p.m. (Eastern Time) on the sooner of (x) the fifth Business Day following the end of such cure period or (y) the second Business Day prior to the start of the next scheduled Forward Capacity Auction or annual reconfiguration auction or annual Capacity Supply Obligation Bilateral submission (such period being referred to herein as the “Non-Commercial Capacity Cure Period”), then, in addition to the other actions described in this Section VII, (A) all Capacity Supply Obligations associated with Non-Commercial Capacity that were awarded to the defaulting Designated FCM Participant in previous Forward Capacity Auctions and reconfiguration auctions and that the defaulting Designated FCM Participant acquired by entering into Capacity Supply Obligation Bilaterals shall be terminated; (B) the defaulting Designated FCM Participant shall be precluded from acquiring any Capacity Supply Obligation that would be associated with Non-Commercial Capacity for which the defaulting Designated FCM Participant has submitted an FCM Deposit; (C) the ISO will (1) draw down the entire amount of the FCM Deposit and the Non-Commercial Capacity Financial Assurance Amount associated with the terminated Capacity Supply Obligations and (2) issue an Invoice to the Designated FCM Participant if there is a shortfall resulting from that Designated FCM Participant’s failure to maintain adequate financial assurance hereunder or if the Designated FCM Participant used a Market Credit Limit to meet its FCM Financial Assurance Requirements; and (D) the default charges described in clause (i) above shall not be assessed to that Designated FCM Participant. All default charges collected under clause (i) above will be deposited in the Late Payment Account in accordance with the ISO New England Billing Policy.

If a Designated FCM Participant's Capacity Supply Obligation is terminated under Market Rule 1, the ISO will draw down the entire Non-Commercial Capacity Financial Assurance Amount provided by such Designated FCM Participant with respect to such terminated Capacity Supply Obligation. If the Designated FCM Participant has not provided enough financial assurance to cover the amount due (or that would have been due but for the Designated FCM Participant's positive Market Credit Limit) with respect to such Non-Commercial Capacity Financial Assurance Amount, then the ISO will issue an Invoice to the Designated FCM Participant for the amount due.

E. Composite FCM Transactions

For separate resources that seek to participate as a single composite resource in a Forward Capacity Auction in which multiple Designated FCM Participants provide that capacity (collectively, a "Composite FCM Transaction"), each Designated FCM Participant participating in that Composite FCM Transaction will be responsible for providing the financial assurance required as follows:

1. the FCM Financial Assurance Requirements for each Designated FCM Participant shall be determined solely with respect to the capacity being provided, or sought to be provided, by that Designated FCM Participant;
2. [reserved];
3. if the Composite FCM Transaction involves one or more Resources seeking to provide or providing Non-Commercial Capacity, the Non-Commercial Capacity Financial Assurance Amount under Section VII.B for each Designated FCM Participant with respect to that Composite FCM Transaction will be calculated based on the commercial status of the Non-Commercial Capacity cleared through the Forward Capacity Auction;
4. any Non-Commercial Capacity Financial Assurance Amount provided under Section VII.B by each Designated FCM Participant with respect to each Resource providing Non-Commercial Capacity in the Composite FCM Transaction will be recalculated according to Section VII.B.3 as the corresponding Resource becomes commercial; and

5. in the event that the Capacity Supply Obligation is terminated, Section VII.D shall apply only to the Non-Commercial Capacity of the Designated FCM Participant participating in the Composite FCM Transaction that has failed to satisfy its obligations, and any Invoice issued thereunder will be issued only to that Designated FCM Participant.
6. the FCM Delivery Financial Assurance calculated under Section VII.A for each Designated FCM Participant contributing resources to a Composite FCM Transaction shall be based on the Capacity Supply Obligation that is provided by that Designated FCM Participant in the current month of the Capacity Commitment Period, provided that the FCM charges incurred in previous months, but not yet paid, shall increase the FCM Financial Assurance Requirements only of the Designated FCM Participant that incurred the charges.

F. Transfer of Capacity Supply Obligations

1. Transfer of Capacity Supply Obligations in Reconfiguration Auctions

A Designated FCM Participant that seeks to transfer its Capacity Supply Obligation in a reconfiguration auction must include in the calculation of its FCM Financial Assurance Requirements under the ISO New England Financial Assurance Policy, prior to the close of bidding in that reconfiguration auction, the amounts described in subsections (a) and (b) below.

- (a) For the 12 month period beginning with the current month, the sum of that Designated FCM Participant's net monthly FCM charges for each month in which the net FCM revenue results in a charge. For purposes of this subsection (a), months in this period in which that Designated FCM Participant's net FCM revenue results in a credit are disregarded (i.e., the net credits from such months are not used to reduce the amount described in this subsection (a)) and the current month FCM charges are prorated to the proportion of remaining days in the month. The amount described in this subsection (a), if any, will increase the Designated FCM Participant's FCM Financial Assurance Requirements.
- (b) For the period including each month that is after the period described in subsection (a) above and that is included in a Capacity Commitment Period for which a Forward Capacity Auction has been conducted, the sum of that Designated FCM Participant's net

monthly FCM charges for each month in which the net FCM revenue results in a charge. For this period, the sum of such charges may be offset by net credits from months in which the net FCM revenue results in a credit, but in no case will the amount described in this subsection (b) be less than zero. The amount described in this subsection (b), if any, will increase the Designated FCM Participant's FCM Financial Assurance Requirements.

For purposes of these calculations, the net FCM revenue for a month shall be determined by accounting for all charges and credits related to the purchase or sale of Capacity Supply Obligations, demand bids and Annual Reconfiguration Transactions in the Forward Capacity Market, exclusive of any accrued Capacity Performance Payments on positions currently or previously held. Upon the completion of each reconfiguration auction, the amount to be included in the calculation of any FCM Financial Assurance Requirements of that Designated FCM Participant shall be adjusted to reflect the cleared quantities at the zonal clearing price for all activity in that reconfiguration auction and accepted Annual Reconfiguration Transactions.

2. Transfer of Capacity Supply Obligations in Capacity Supply Obligation Bilaterals

A Designated FCM Participant that seeks to transfer its Capacity Supply Obligation in a Capacity Supply Obligation Bilateral must include in the calculation of its FCM Financial Assurance Requirements under the ISO New England Financial Assurance Policy, prior to the close of the period for submission of that Capacity Supply Obligation Bilateral, amounts calculated as described in Section VII.F.1 above, as applicable. If a Designated FCM Participant fails to provide the required additional financial assurance for its Capacity Supply Obligation Bilaterals, all of those transactions will be rejected. If the Designated FCM Participant's request to transfer a Capacity Supply Obligation in a Capacity Supply Obligation Bilateral is not accepted, it will no longer include amounts related to that Capacity Supply Obligation in the calculation of its FCM Financial Assurance Requirements.

3. Financial Assurance for Annual Reconfiguration Transactions

A Designated FCM Participant that submits an Annual Reconfiguration Transaction must include in the calculation of its FCM Financial Assurance Requirements under the ISO New England Financial Assurance Policy, prior to the close of the period for submission of that Annual Reconfiguration Transaction, amounts calculated as described in Section

VII.F.1 above, as applicable. If a Designated FCM Participant fails to provide the required additional financial assurance for its Annual Reconfiguration Transactions, all of those transactions will be rejected. If a transaction is rejected, the Designated FCM Participant is no longer required to include amounts related to that transaction in the calculation of its FCM Financial Assurance Requirements.

4. Substitution Auctions

A Designated FCM Participant that participates in a substitution auction must include the following charges and credits in its FCM Financial Assurance Requirements.

- a. For any supply offer with at least one price-quantity pair priced less than zero must include in the calculation of its FCM Financial Assurance Requirements, beginning at 8 a.m. (Eastern Time) on the tenth Business Day prior to the Forward Capacity Auction, amounts calculated as described in Section VII.F.1 above. For purposes of these calculations, the maximum charge that would result from clearing any price-quantity pairs priced less than zero for each month of the Capacity Commitment Period associated with the Forward Capacity Auction shall be included in the amount calculated as described in Section VII.F.1(b) above, the net FCM revenue for all other months in the defined periods shall be determined by accounting for all charges and credits related to the purchase or sale of Capacity Supply Obligations in the Forward Capacity Market, and any accrued Capacity Performance Payments on positions currently or previously held are excluded.
- b. A Designated FCM Participant (i) that submits a demand bid into a substitution auction for a resource that is subject to a multi-year rate pursuant to Section III.13.1.3.5.4 or Section III.13.1.1.2.2.4, (ii) for which the maximum charge that would result from clearing the capacity subject to the multi-year rate election would exceed the revenue the Designated FCM Participant will receive for the relevant Capacity Commitment Period under its multi-year rate election for the resource, (iii) must include in the calculation of its FCM Financial Assurance Requirements, beginning at 8 a.m. (Eastern Time) on the tenth Business Day prior to the Forward Capacity Auction, amounts calculated as described in Section VII.F.1 above. For purposes of these calculations, the maximum charge that would result from clearing the capacity subject to the multi-year rate election shall be included in the amount calculated as described in Section VII.F.1(b) above, the net FCM revenue for all other months in the defined periods shall be determined by accounting for all charges and credits related to the purchase or sale of Capacity

Supply Obligations in the Forward Capacity Market, and any accrued Capacity Performance Payments on positions currently or previously held are excluded.

- c. If a Designated FCM Participant is in default under the ISO New England Financial Assurance Policy or the ISO New England Billing Policy beginning at 8 a.m. (Eastern Time) on the tenth Business Day prior to the Forward Capacity Auction and does not cure such default by the earlier of (i) the end of the appropriate cure period and (ii) 5 p.m. (Eastern Time) on the second Business Day prior to the start of the Forward Capacity Auction, then the defaulting Designated FCM Participant shall be precluded from submitting a supply offer or demand bid that is subject to this Section VII.F.4.
- d. Upon the completion of the substitution auction, the amount to be included in the calculation of the FCM Financial Assurance Requirements for a Designated FCM Participant as described in Section VII.F.1 above shall be adjusted to reflect all charges and credits related to the purchase or sale of Capacity Supply Obligations in the substitution auction.

VIII. [Reserved]

IX. THIRD-PARTY CREDIT PROTECTION

The ISO shall obtain third-party credit protection, in the form of credit insurance coverage (“Credit Coverage”), on terms acceptable to the ISO in its reasonable discretion at least in an amount covering collectively the Credit Qualifying Rated Market Participants based on the formula below.

Notwithstanding the foregoing, if the entity providing such Credit Coverage cannot provide the amount required by this Section IX, the ISO will reduce the required coverage for all Credit Qualifying Rated Market Participants on a pro rata basis. The total amount of the Credit Coverage shall be at least the aggregate of the following formula; provided, however, if the entity providing the Credit Coverage denies coverage (in whole or in part) for any Credit Qualifying Rated Market Participant based on its rights under the insurance policy, the ISO will use reasonable efforts to obtain documentation regarding the denial and will make reasonable efforts to appeal such denial. For each Credit Qualifying Rated Market Participant, the portion of the Credit Coverage shall be the lesser of: (A) the sum of (x) 2.5 times the average Hourly Charges for such Credit Qualifying Rated Market Participant within the previous fifty-two calendar weeks plus (y) 2.5 times the sum of the average Non-Hourly Charges (excluding charges or credits related to FTR transactions) and the average Transmission Charges for such Credit Qualifying

Rated Market Participant within the previous twelve calendar months; or (B) \$50 million. For any Credit Qualifying Rated Market Participant, the applicable amount of the Credit Coverage shall be adjusted monthly if the above formula produces a change that is either (A) 10% or greater, or (B) greater than \$100,000. The Credit Coverage shall be provided by an insurance company rated “A-” or better by A.M. Best & Co. or “A” or better by S&P. The cost of the Credit Coverage obtained for each calendar year shall be allocated to all Credit Qualifying Rated Market Participants pro rata based, for each Credit Qualifying Rated Market Participant, on the average amount of the Invoices issued to that Credit Qualifying Rated Market Participant under the ISO New England Billing Policy in the preceding calendar year. Each Credit Qualifying Rated Market Participant shall provide the ISO with such information as may be reasonably necessary for the ISO to obtain the Credit Coverage at the lowest possible cost.

X. ACCEPTABLE FORMS OF FINANCIAL ASSURANCE

Provided that the requirements set forth herein are satisfied, acceptable forms of financial assurance include shares of registered or private mutual funds held in a shareholder account or a letter of credit, each in accordance with the provisions of this Section X. All costs associated with obtaining financial security and meeting the provisions of the ISO New England Financial Assurance Policy are the responsibility of the Market Participant or Non-Market Participant Transmission Customer providing that security (each a “Posting Entity”). Any Posting Entity requesting a change to one of the model forms attached to the ISO New England Financial Assurance Policy which would be specific to such Posting Entity (as opposed to a generic improvement to such form) shall, at the time of making that request, pay a \$1,000 change fee, which fee shall be deposited into the Late Payment Account maintained under the ISO New England Billing Policy.

A. Shares of Registered or Private Mutual Funds in a Shareholder Account

Shares of registered or private mutual funds in a shareholder account are an acceptable form of financial assurance provided that the Posting Entity providing such collateral (i) completes all required documentation to open an account with the financial institution selected by the ISO, after consultation with the NEPOOL Budget and Finance Subcommittee, (ii) completes and executes a security agreement (“Security Agreement”) in the form of Attachment 1 to the ISO New England Financial Assurance Policy and is in compliance with the Security Agreement, and (iii) completes and executes a Control Agreement in the form posted on the ISO website and is in compliance with the Control Agreement. Any material variation from the form of Security Agreement included in Attachment 1 to the ISO New England Financial Assurance Policy or the form of Control

Agreement posted on the ISO website must be approved by the ISO after consultation with the NEPOOL Budget and Finance Subcommittee and, in the case of the Security Agreement, filed with the Commission. To the extent any amount of shares contained in the shareholder account is no longer required hereunder, the ISO shall return such collateral to the Posting Entity providing it within four (4) Business Days of a request to do so.

If the amount of collateral maintained in the shareholder account is below the required level (including by reason of losses on investments), the Posting Entity shall immediately replenish or increase the amount to the required level. The collateral will be held in an account maintained in the name of the Posting Entity and invested in the investment selected by that Posting Entity from a menu of investment options listed at the time on the ISO's website, which menu will be approved by the NEPOOL Budget and Finance Subcommittee, with discounts applied to the investments in certain of such options if and as determined by the NEPOOL Budget and Finance Subcommittee. If a Posting Entity does not select an investment for its collateral, that collateral will be invested in the "default" investment option selected by the ISO and approved by the NEPOOL Budget and Finance Subcommittee from time to time. Any dividends and distribution on such investment will accrue to the benefit of the Posting Entity. The ISO may sell or otherwise liquidate such investments at its discretion to meet the Posting Entity's obligations to the ISO. In no event will the ISO or NEPOOL or any NEPOOL Participant have any liability with respect to the investment of collateral under this Section X.A.

Notwithstanding the foregoing, an investment in shares of a registered fund in a shareholder account shall not be an acceptable form of financial assurance for a Posting Entity that is not a U.S. Person, as defined in Regulation S under the Securities Act of 1933, as amended, unless the financial institution selected by the ISO allows such Posting Entity to invest in the investment options listed at the time on the ISO's website or the Posting Entity is invested in the investment options listed on the ISO's website as of March 19, 2015.

B. Letter of Credit

An irrevocable standby letter of credit provides an acceptable form of financial assurance to the ISO. For purposes of the ISO New England Financial Assurance Policy, the letter of credit shall be valued at \$0 at the end of the Business Day that is 30 days prior to the termination of such letter of credit. If the letter of credit amount is below the required level, the Posting Entity shall immediately replenish or increase the letter of credit amount or obtain a substitute letter of credit. The account party on a letter of credit must be either the Posting Entity whose obligations are secured by that letter of credit or an Affiliate of that Posting Entity.

1. Requirements for Banks

Each bank issuing a letter of credit that serves as financial assurance must meet the requirements of this Section X.B.1. Each such bank must be on the ISO's "List of Eligible Letter of Credit Issuers" which shall be established pursuant to this Section X.B.1. The ISO will post the current List of Eligible Letter of Credit Issuers on its website, and update that List and posting no less frequently than quarterly; provided that if a bank is removed from the List of Eligible Credit Issuers, the ISO shall update the List and provide notice to the NEPOOL Budget & Finance Subcommittee. To be included on the List of Eligible Letter of Credit Issuers, the bank must be organized under the laws of the United States or any state thereof, or be the United States branch of a foreign bank and either: (i) be recognized by the Chicago Mercantile Exchange ("CME") as an approved letter of credit bank; or (ii) have a minimum long-term debt rating (or, if the bank does not have minimum long-term debt rating, than a minimum corporate rating) of "A-" by S&P, or "A3" by Moody's or "A-" by Fitch so long as its letter of credit is confirmed by a bank that is recognized by CME as an approved letter of credit issuer as described in clause (i) above; or (iii) have a minimum long-term debt rating (or, if the bank does not have minimum long-term debt rating, than a minimum corporate rating) of "A-" by S&P, or "A3" by Moody's, or "A-" by Fitch and be approved by the ISO in its sole discretion (the ISO will promptly advise the NEPOOL Budget and Finance Subcommittee of any additional bank approved by it under this provision). Because the ratings described in clauses (ii) and (iii) are minimum ratings, a bank will not be considered to have satisfied the requirement of those clauses if any applicable rating from the Rating Agencies falls below the levels listed in those clauses. In addition, no Posting Entity may provide a letter of credit that has been issued or confirmed by a bank that is an Affiliate of that Market Participant. If a bank that is included on the List of Eligible

Letter of Credit Issuers fails to satisfy any of the criteria set forth above or if the ISO determines in its sole discretion that despite satisfying any of the criteria set forth above, accepting a letter of credit from a bank on the List of Eligible Letter of Credit Issuers presents an unreasonable risk that a bank may fail to honor the terms of such letter of credit, the applicable Posting Entity will have five (5) Business Days from the date on which the ISO provides notice of such failure or removal to replace the letter of credit with a letter of credit from a bank satisfying those criteria or provide other financial assurance satisfying the requirements of the ISO New England Financial Assurance Policy. The ISO may extend that cure period to twenty (20) Business Days in its sole discretion. The ISO must promptly advise the NEPOOL Budget and Finance Subcommittee of any extension of a cure period beyond five (5) Business Days under this provision. No letter of credit bank may issue or confirm letters of credit under the ISO New England Financial Assurance Policy in an amount exceeding either: (i) \$100 million in the aggregate for any single Posting Entity; or (ii) \$150 million in aggregate for a group of Posting Entities that are Affiliates. If a bank is removed from the List of Eligible Letter of Credit Issuers based on the ISO's determination that there is an unreasonable risk that a bank may fail to honor the terms of such letter of credit, the ISO in its sole discretion may reinstate eligibility, provided that the bank otherwise meets the conditions of this Section X.B.1.

The following provisions shall apply when a bank fails to honor the terms of one or more letters of credit issued or confirmed by the bank in favor of the ISO: (i) if the bank fails to honor the terms of one letter of credit in a rolling seven hundred and thirty day period, then the ISO will issue a notice of such failure to the NEPOOL Budget and Finance Subcommittee, to all members and alternates of the Participants Committee, to the New England governors and utility regulatory agencies and to the billing and credit contracts for all Market Participants; (ii) if the bank fails to honor either the terms of one letter of credit twice or the terms of two letters of credit in a rolling seven hundred and thirty day period, then (A) the ISO shall issue a notice described in subsection (i) above, (B) the bank will no longer be eligible to issue or confirm letters of credit in favor of the ISO, (C) any letters of credit issued or confirmed by such bank in favor of the ISO will not be renewed, and (D) any letters of credit issued or confirmed by such bank in favor of the ISO must be replaced with another acceptable form of financial assurance within five (5) Business Days from the date on which the ISO provides notice of such failure (the ISO

may extend that cure period to twenty (20) Business Days in its sole discretion). Notwithstanding the foregoing, the ISO in its sole discretion may reinstate eligibility after not less than two years from the loss of eligibility, provided that the bank otherwise meets the conditions of this Section X.B.1.

Any letter of credit provided for a new Posting Entity for the purpose of covering the Initial Market Participant Financial Assurance Requirement must have a minimum term of 120 days.

2. Form of Letter of Credit

Attachment 2 provides a generally acceptable sample “clean” letter of credit, and all letters of credit provided by Posting Entities shall be in this form (with only minor, non-material changes), unless a variation therefrom is approved by the ISO after consultation with the NEPOOL Budget and Finance Subcommittee and filed with the Commission. Notwithstanding the foregoing, Posting Entities that have provided a letter of credit in a form that was previously acceptable (e.g., under a prior version of Attachment 2) shall not be required to resubmit such letter of credit until the earlier of (a) the amendment or expiration of such letter of credit, in which case Posting Entity shall be required to provide a Letter of Credit in the Form of Attachment 2, or (b) December 31, 2021. Any letter of credit provided for a new Posting Entity must have a minimum term of 120 days. All costs incurred by the ISO in collecting on a letter of credit provided under the ISO New England Financial Assurance Policy shall be paid, or reimbursed to the ISO, by the Posting Entity providing that letter of credit.

C. Special Provisions for Provisional Members

Notwithstanding any other provision of the ISO New England Financial Assurance Policy to the contrary, due to the temporary nature of a Market Participant’s status as a Provisional Member and the relatively small amounts due from Provisional Members, any Provisional Member required to provide additional financial assurance under the ISO New England Financial Assurance Policy may only satisfy the portion of that requirement attributable to Participant Expenses under the RNA by providing a cash deposit in accordance with Section X.A. Provisional Members will not have any other Non-Hourly Requirements under the ISO New England Financial Assurance Policy. If a Provisional Member uses a standing instruction to pay its Invoices pursuant to the ISO

New England Billing Policy, in order to avoid a default and/or a Late Payment Charge, the total amount of the cash deposited by that Provisional Member should be equal to the sum of (x) the Provisional Member's Financial Assurance Requirement under the ISO New England Financial Assurance Policy that is attributable to Participant Expenses under the RNA and (y) the amount due from that Provisional Member on its next Invoice under that ISO New England Billing Policy (not including the amount of any Qualification Process Cost Reimbursement Deposit (including the annual true-up of that amount) due from such Provisional Member). Provisional Members are also required to satisfy all other provisions of the ISO New England Financial Assurance Policy, and any additional financial assurance required to be provided by a Provisional Member that is not attributable to Participant Expenses may be satisfied by providing a cash deposit or letter of credit in accordance with this Section X but shall not be satisfied through the provision of the cash deposit described in this Section X.C. Without limiting or reducing in any way the requirements of the ISO New England Financial Assurance Policy that apply to a Provisional Member, the amount of the cash deposit initially provided by a Provisional Member that is attributable to Participant Expenses (including any amounts provided in connection with the standing instruction under the ISO New England Billing Policy described above) shall be at least \$2,500, and each Provisional Member will replenish that cash deposit to at least that \$2,500 level on December 31 of each year.

XI. MISCELLANEOUS PROVISIONS

A. Obligation to Report Material Adverse Changes

Each Market Participant and each Non-Market Participant Transmission Customer is responsible for informing the ISO in writing within five (5) Business Days of any Material Adverse Change in its financial status. A "Material Adverse Change" in financial status includes, but is not limited to, the following: a downgrade to below an Investment Grade Rating by any Rating Agency; being placed on credit watch with negative implication by any Rating Agency if the Market Participant or Non-Market Participant Transmission Customer does not have an Investment Grade Rating; a bankruptcy filing or other insolvency; a report of a significant quarterly loss or decline of earnings; the resignation of key officer(s); the sanctioning of the Market Participant or Non-Market Participant Transmission Customer or any of its Principals imposed by the Federal Energy Regulatory Commission, the Securities and Exchange Commission, the

Commodity Futures Trading Commission, any exchange monitored by the National Futures Association, or any state entity responsible for regulating activity in energy markets; the filing of a material lawsuit that could materially adversely impact current or future financial results; or a significant change in the Market Participant's or Non-Market Participant Transmission Customer's market capitalization. A Market Participant's or Non-Market Participant Transmission Customer's failure to timely disclose a Material Adverse Change in its financial status may result in termination proceedings by the ISO. If the ISO determines that there is a Material Adverse Change in the financial condition of a Market Participant- or Non-Market Participant Transmission Customer, then the ISO shall provide to that Market Participant or Non-Market Participant Transmission Customer a signed written notice two Business Days before taking any of the actions described below. The notice shall explain the reasons for the ISO's determination of the Material Adverse Change. After providing notice, the ISO may take one or more of the following actions: (i) require that, within two Business Days of receipt of the notice of Material Adverse Change, the Market Participant or Non-Market Participant Transmission Customer provide one of the forms of financial assurance described in Section X of the ISO New England Financial Assurance Policy and/or an additional amount of financial assurance in one of the forms of financial assurance described in Section X of the ISO New England Financial Assurance Policy; (ii) require that the Market Participant or Non-Market Participant Transmission Customer cease one or more transactions in the New England Markets; or (iii) require that the Market Participant or Non-Market Participant Transmission Customer take other measures to restore the ISO's confidence in its ability to safely transact in the New England Markets. Any additional amount of financial assurance required as a result of a Material Adverse Change shall be sufficient, as reasonably determined by the ISO, to cover the Market Participant's or Non-Market Participant Transmission Customer's potential settled and unsettled liability or obligation, provided, however, that if the additional amount of financial assurance required as a result of a Material Adverse Change is equal to or greater than \$25 million, then the Chief Financial Officer shall first consult, to the extent practicable, with the ISO's Chief Executive Officer, Chief Operating Officer, and General Counsel. If the Market Participant or Non-Market Participant Transmission Customer fails to comply with any of the requirements imposed as a result of a Material Adverse Change, then the ISO may initiate termination proceedings against the Market Participant or Non-Market Participant Transmission Customer.

B. Weekly Payments

A Market Participant or Non-Market Participant Transmission Customer may request that, in lieu of providing the entire amount of one of the financial assurances set forth above to satisfy its Financial Assurance Requirement, a weekly billing schedule be implemented for its Non-Hourly Charges and its Transmission Charges. The ISO may, in its discretion, agree to such a request; provided, however, that any weekly billing arrangement for Non-Hourly Charges and Transmission Charges will terminate no more than six (6) months after the date on which such arrangement begins unless the Market Participant or Non-Market Participant Transmission Customer requests an extension of such arrangement and demonstrates to the ISO's satisfaction in its sole discretion that the termination of such arrangement and compliance with the other provisions of the ISO New England Financial Assurance Policy (including providing the full amount of its Financial Assurance Requirement) will impose a substantial hardship on the Market Participant or Non-Market Participant Transmission Customer. Such demonstration of a substantial hardship shall be made every six (6) months after the initial demonstration, and a Market Participant's or Non-Market Participant Transmission Customer's weekly billing arrangement for Non-Hourly Charges and Transmission Charges will be terminated if it fails to demonstrate to the ISO's satisfaction in its sole discretion at any such six (6) month interval that compliance with the other provisions of the ISO New England Financial Assurance Policy will impose a substantial hardship on it. If the ISO agrees to implement a weekly billing schedule for Non-Hourly Charges and Transmission Charges for a Market Participant or Non-Market Participant Transmission Customer, the Market Participant or Non-Market Participant Transmission Customer shall be billed weekly for such Non-Hourly Charges and Transmission Charges in accordance with the ISO New England Billing Policy. The Market Participant or Non-Market Participant Transmission Customer shall pay with respect to each weekly Invoice for Non-Hourly Charges and Transmission Charges an administrative fee, determined by the ISO, to reimburse the ISO for the costs it incurs as a result of that Market Participant's or Non-Market Participant Transmission Customer's weekly billing arrangement.

If a weekly billing schedule is implemented for a Market Participant's or Non-Market Participant Transmission Customer's Non-Hourly Charges and Transmission Charges under this Section XI.B, the Market Participant or Non-Market Participant Transmission

Customer may be required to provide the full amount of its Financial Assurance Requirement at any time if the Market Participant or Non-Market Participant Transmission Customer fails to pay when due any weekly Invoice. In addition, upon the termination of a Market Participant's or Non-Market Participant Transmission Customer's weekly billing arrangement for Non-Hourly Charges and Transmission Charges, the Market Participant or Non-Market Participant Transmission Customer shall either satisfy the applicable rating requirements set forth herein, satisfy the Credit Threshold, or provide the full amount of one of the other forms of financial assurance set forth herein.

C. Use of Transaction Setoffs

In the event that a Market Participant or Non-Market Participant Transmission Customer has failed to satisfy its Financial Assurance Requirement hereunder, the ISO may retain payments due to such Market Participant or Non-Market Participant Transmission Customer, up to the amount of such Market Participant's or Non-Market Participant Transmission Customer's unsatisfied Financial Assurance Requirement, as a cash deposit securing such Market Participant's or Non-Market Participant Transmission Customer's obligations to the ISO, NEPOOL, the Market Participants, the PTOs and the Non-Market Participant Transmission Customers, provided, however, that a Market Participant or Non-Market Participant Transmission Customer will not be deemed to have satisfied its Financial Assurance Requirement under the ISO New England Financial Assurance Policy because the ISO is retaining amounts due to it hereunder unless such Market Participant or Non-Market Participant Transmission Customer has satisfied all of the requirements of Section X with respect to such amounts.

D. Reimbursement of Costs

Each Market Participant or Non-Market Participant Transmission Customer that fails to perform any of its obligations under the Tariff, including without limitation those arising under the ISO New England Financial Assurance Policy and the ISO New England Billing Policy, shall reimburse the ISO, NEPOOL and each Market Participant, PTO and Non-Market Participant Transmission Customer for all of the fees, costs and expenses that they incur as a result of such failure.

E. Notification of Default

In the event that a Market Participant or Non-Market Participant Transmission Customer fails to comply with the ISO New England Financial Assurance Policy (a “Financial Assurance Default”), such failure continues for at least two days and notice of that failure has not previously been given, the ISO may (but shall not be required to) notify such Market Participant or Non-Market Participant Transmission Customer in writing, electronically and by first class mail sent in each case to such Market Participant’s or Non-Market Participant Transmission Customer’s billing and credit contacts or such Market Participant’s member or alternate member on the Participants Committee (it being understood that the ISO will use reasonable efforts to contact all three where applicable), of such Financial Assurance Default. Either simultaneously with the giving of the notice described in the preceding sentence or within two days thereafter (unless the Financial Assurance Default is cured during such period), the ISO shall notify each other member and alternate on the Participants Committee and each Market Participant’s and Non-Market Participant Transmission Customer’s billing and credit contacts of the identity of the Market Participant or Non-Market Participant Transmission Customer receiving such notice, whether such notice relates to a Financial Assurance Default, and the actions the ISO plans to take and/or has taken in response to such Financial Assurance Default. In addition to the notices provided for herein, the ISO will provide any additional information required under the ISO New England Information Policy.

F. Remedies Not Exclusive

No remedy for a Financial Assurance Default is or shall be deemed to be exclusive of any other available remedy or remedies. Each such remedy shall be distinct, separate and cumulative, shall not be deemed inconsistent with or in exclusion of any other available remedy, and shall be in addition to and separate and distinct from every other remedy. A Financial Assurance Default may result in suspension of the Market Participant or Non-Market Participant Transmission Customer or the commencement of termination proceedings by the ISO.

G. Inquiries and Contests

A Market Participant or Non-Market Participant Transmission Customer may request a written explanation of the ISO’s determination of its Market Credit Limit, Transmission Credit Limit, Financial Assurance Requirement or Transmission Obligations, including any change thereto, by submitting that request in writing to the ISO’s Credit Department,

either by email at CreditDepartment@iso-ne.com or by facsimile at (413) 540-4569. That request must include the Market Participant's customer identification number, the name of the Market Participant or Non-Market Participant Transmission Customer and the specific information for which the Market Participant or Non-Market Participant Transmission Customer would like an explanation and must be submitted by the designated credit contact for that Market Participant or Non-Market Participant Transmission Customer as on file with the ISO. In addition, since Financial Assurance Requirements are updated at least daily, any request for an explanation relating to the calculation of, or a change in, a Financial Assurance Requirement must be submitted on the same day as that calculation or change. The ISO's response to any request under this Section XI.G shall include an explanation of how the applicable calculation or determination was performed using the formulas and criteria in the ISO New England Financial Assurance Policy. A Market Participant or Non-Market Participant Transmission Customer may contest any calculation or determination by the ISO under the ISO New England Financial Assurance Policy using the dispute resolution provisions of Section I.6 of the Tariff.

H. Forward Contract/Swap Agreement

All FTR transactions constitute "forward contracts" and/or "swap agreements" within the meaning of the United States Bankruptcy Code (the "Bankruptcy Code"), and the ISO shall be deemed to be a "forward contract merchant" and/or "swap participant" within the meaning of the Bankruptcy Code for purposes of those FTR transactions. Pursuant to the ISO New England Financial Assurance Policy, the ISO Tariff and the Market Participant Service Agreement with each Market Participant, the ISO already has, and shall continue to have, the following rights (among other rights) in respect of a Market Participant default under those documents (including the ISO New England Financial Assurance Policy and the ISO New England Billing Policy): A) the right to terminate and/or liquidate any FTR transaction held by that Market Participant; B) the right to immediately proceed against any additional financial assurance provided by that Market Participant; C) the right to set off any obligations due and owing to that Market Participant pursuant to any forward contract, swap agreement or similar agreement against any amounts due and owing by that Market Participant pursuant to any forward contract, swap agreement or similar agreement, such arrangement to constitute a "master netting agreement" within the meaning of the Bankruptcy Code; and D) the right to

suspend that Market Participant from entering into future transactions in the FTR system. For the avoidance of doubt, upon the commencement of a voluntary or involuntary proceeding for a Market Participant under the Bankruptcy Code, and without limiting any other rights of the ISO or obligations of any Market Participant under the Tariff (including the ISO New England Financial Assurance Policy and the ISO New England Billing Policy) or any Market Participant Service Agreement, the ISO may exercise any of its rights against such Market Participant, including, without limitation 1) the right to terminate and/or liquidate any FTR transaction held by that Market Participant, 2) the right to immediately proceed against any additional financial assurance provided by that Market Participant, 3) the right to set off any obligations due and owing to that Market Participant pursuant to any forward contract, swap agreement and/or master netting agreement against any amounts due and owing by that Market Participant with respect to an FTR transaction including as a result of the actions taken by the ISO pursuant to 1) above, and 4) the right to suspend that Market Participant from entering into future transactions in the FTR system.

ATTACHMENT 1
SECURITY AGREEMENT

THIS SECURITY AGREEMENT (the “Security Agreement”) is effective as of this [__] day of [____], 20[___], by and between [INSERT NAME], a [____], having its principal office and place of business at [_____] (the “Debtor”), and ISO New England Inc., a Delaware nonprofit corporation (the “Secured Party” and collectively with the Debtor, the “Parties”).

WITNESSETH:

In consideration of the mutual promises and covenants herein contained, the Parties agree as follows:

1. Definitions.

a. In this Security Agreement:

- i. “Code” shall mean the Uniform Commercial Code, as enacted in the State of Connecticut and as amended from time to time.
- ii. “Collateral” shall mean (a) all cash provided, submitted, wired or otherwise transferred or deposited by the Debtor to or with the Secured Party or a financial institution, investment firm, or other designee selected by the Secured Party or acting on the Secured Party’s behalf, to hold or invest such cash deposit, from time to time in satisfaction of, pursuant to, or in compliance with, the ISO Financial Assurance Policy; (b) all securities or other investment property (as defined in the Code) of the Debtor, whether or not purchased with such cash deposit, submitted, wired or otherwise transferred, deposited or maintained by the Debtor to or with the Secured Party or its designee, in each case in satisfaction of, pursuant to, or in compliance with, the ISO Financial Assurance Policy; (c) all other property of Debtor submitted, pledged, assigned or otherwise transferred by the Debtor to the Secured Party or its designee, in each case, in satisfaction of, pursuant to, or in compliance with, the ISO Financial Assurance Policy; and (d) the products and proceeds of each of the foregoing.
- iii. “ISO Financial Assurance Policy” shall mean the Financial Assurance Policy in the Tariff, as amended, supplemented or restated from time to time, including but not limited to the Financial Assurance Policy in Exhibit 1A to Section I of the Tariff.

- iv. “Tariff” shall mean the ISO New England Inc. Transmission, Markets and Services Tariff, as filed with the Federal Energy Regulatory Commission, as amended, supplemented and/or restated from time to time.
 - v. “Obligations” shall mean any and all amounts due from Debtor from time to time under the Tariff.
 - vi. “Market Participants” shall have the meaning set forth in the Tariff.
 - b. Any capitalized term not defined herein that is defined in the Code shall have the meaning as defined in the Code.
2. Security Interest. To secure the payment of all Obligations of the Debtor, Debtor hereby grants and conveys to the Secured Party a security interest in the Collateral. The Debtor hereby irrevocably authorizes the Secured Party at any time and from time to time to file in any applicable filing office any initial financing statements and amendments thereto that provide any information required by part 5 of Article 9 of the Code for the sufficiency or filing office acceptance of any financing statement or amendment.
3. Debtor’s Covenants. The Debtor warrants, covenants and agrees with the Secured Party as follows:
- a. The Debtor shall perform all of the Debtor’s obligations under this Security Agreement according to its terms.
 - b. The Debtor shall defend the title to the Collateral against any and all persons and against all claims.
 - c. The Debtor shall at any time and from time to time take such steps as the Secured Party may reasonably request to ensure the continued perfection and priority of the Secured Party’s security interest in the Collateral and the preservation of its rights therein.
 - d. The Debtor acknowledges and agrees that this Security Agreement grants, and is intended to grant, a security interest in the Collateral. If the Debtor is a corporation, limited liability company, limited partnership or other Registered Organization (as that term is defined in Article 9 of the Uniform Commercial Code as in effect in Connecticut) the Debtor shall, at its expense, furnish to Secured Party a certified copy of Debtor’s organization documents verifying its correct legal name or, at Secured Party’s election, shall permit the Secured Party to obtain such certified copy at Debtor’s expense. From

time to time at Secured Party's election, the Secured Party may obtain a certified copy of Debtor's organization documents and a search of such Uniform Commercial Code filing offices, as it shall deem appropriate, at Debtor's expense, to verify Debtor's compliance with the terms of this Security Agreement.

- e. The Debtor authorizes the Secured Party, if the Debtor fails to do so, to do all things required of the Debtor herein and charge all expenses incurred by the Secured Party to the Debtor together with interest thereon, which expenses and interest will be added to the Obligations.
4. Debtor's Representations and Warranties. The Debtor represents and warrants to the Secured Party as follows:
- a. The exact legal name of the Debtor is as first stated above.
 - b. Except for the security interest of the Secured Party, Debtor is the owner of the Collateral free and clear of any encumbrance of any nature.
5. Non-Waiver. Waiver of or acquiescence in any default by the Debtor or failure of the Secured Party to insist upon strict performance by the Debtor of any warranties, covenants, or agreements in this Security Agreement shall not constitute a waiver of any subsequent or other default or failure. No failure to exercise or delay in exercising any right, power or remedy of the Secured Party under this Security Agreement shall operate as a waiver thereof, nor shall any partial exercise of any right, power or remedy preclude any other or further exercise thereof or the exercise of any other right, power or remedy. The failure of the Secured Party to insist upon the strict observance or performance of any provision of this Security Agreement shall not be construed as a waiver or relinquishment of such provision. The rights and remedies provided herein are cumulative and not exclusive of any other rights or remedies provided at law or in equity.
6. Events of Default. Any one of the following shall constitute an "Event of Default" hereunder by the Debtor:
- a. Failure by the Debtor to comply with or perform any provision of this Security Agreement or to pay any Obligation; or

- b. Any representation or warranty made or given by the Debtor in connection with this Security Agreement proves to be false or misleading in any material respect; or
 - c. Any part of the Collateral is attached, seized, subjected to a writ or distress warrant, or is levied upon, or comes within the possession of any receiver, trustee, custodian or assignee for the benefit of creditors.
- 7. Remedy upon the Occurrence of an Event of Default. Upon the occurrence of any Event of Default the Secured Party shall, immediately and without notice, be entitled to use, sell, or otherwise liquidate the Collateral to pay all Obligations owed by the Debtor.
- 8. Attorneys' Fees, etc. Upon the occurrence of any Event of Default, the Secured Party's reasonable attorneys' fees and the legal and other expenses for pursuing, receiving, taking, keeping, selling, and liquidating the Collateral and enforcing the Security Agreement shall be chargeable to the Debtor.
- 9. Other Rights.
 - a. In addition to all rights and remedies herein and otherwise available at law or in equity, upon the occurrence of an Event of Default, the Secured Party shall have such other rights and remedies as are set forth in the Tariff and ISO Financial Assurance Policy.
 - b. Notwithstanding the provisions of the ISO New England Information Policy, as amended, supplemented or restated from time to time (the "ISO New England Information Policy"), Debtor hereby (i) authorizes the Secured Party to disclose any information concerning Debtor to any court, agency or entity which is necessary or desirable, in the sole discretion of the Secured Party, to establish, maintain, perfect or secure the Secured Party's rights and interest in the Collateral (the "Debtor Information"); and (ii) waives any rights it may have under the ISO New England Information Policy to prevent, impair or limit the Secured Party from disclosing such information concerning the Debtor.
- 10. PRE-JUDGMENT REMEDY. DEBTOR ACKNOWLEDGES THAT THIS SECURITY AGREEMENT AND THE UNDERLYING TRANSACTIONS GIVING RISE HERETO CONSTITUTE COMMERCIAL BUSINESS TRANSACTIONS WITHIN THE STATE OF CONNECTICUT. IN THE EVENT OF ANY LEGAL ACTION BETWEEN DEBTOR AND

THE SECURED PARTY HEREUNDER, DEBTOR HEREBY EXPRESSLY WAIVES ANY RIGHTS WITH REGARD TO NOTICE, PRIOR HEARING AND ANY OTHER RIGHTS IT MAY HAVE UNDER THE CONNECTICUT GENERAL STATUTES, CHAPTER 903a, AS NOW CONSTITUTED OR HEREAFTER AMENDED, OR OTHER STATUTE OR STATUTES, STATE OR FEDERAL, AFFECTING PREJUDGMENT REMEDIES, AND THE SECURED PARTY MAY INVOKE ANY PREJUDGMENT REMEDY AVAILABLE TO IT, INCLUDING, BUT NOT LIMITED TO, GARNISHMENT, ATTACHMENT, FOREIGN ATTACHMENT AND REPLEVIN, WITH RESPECT TO ANY TANGIBLE OR INTANGIBLE PROPERTY (WHETHER REAL OR PERSONAL) OF DEBTOR TO ENFORCE THE PROVISIONS OF THIS SECURITY AGREEMENT, WITHOUT GIVING DEBTOR ANY NOTICE OR OPPORTUNITY FOR A HEARING.

11. WAIVER OF JURY TRIAL. THE DEBTOR AND THE SECURED PARTY HEREBY EACH KNOWINGLY, VOLUNTARILY AND IRREVOCABLY WAIVES THE RIGHT TO TRIAL BY JURY IN ANY ACTION, DEFENSE, COUNTERCLAIM, CROSSCLAIM AND/OR ANY FORM OF PROCEEDING BROUGHT IN CONNECTION WITH THIS SECURITY AGREEMENT OR RELATING TO ANY OBLIGATIONS SECURED HEREBY.
12. Additional Waivers. Demand, presentment, protest and notice of nonpayment are hereby waived by Debtor. Debtor also waives the benefit of all valuation, appraisement and exemption laws.
13. Binding Effect. The terms, warranties and agreements herein contained shall bind and inure to the benefit of the respective Parties hereto, and their respective legal representatives, successors and assigns.
14. Assignment. The Secured Party may, upon notice to the Debtor, assign without limitation its security interest in the Collateral.
15. Amendment. This Security Agreement may not be altered or amended except by an agreement in writing signed by the Parties.
16. Term.

- a. This Security Agreement shall continue in full force and effect until all Obligations owed by the Debtor have been paid in full.
 - b. No termination of this Security Agreement shall in any way affect or impair the rights and liabilities of the Parties hereto relating to any transaction or events prior to such termination date, or to the Collateral in which the Secured Party has a security interest, and all agreements, warranties and representations of the Debtor shall survive such termination.
17. Choice of Law. The laws of the State of Connecticut shall govern the rights and duties of the Parties herein contained without giving effect to any conflict-of-law principles.

IN WITNESS WHEREOF, the Parties have signed and sealed this Security Agreement as of the day and year first above written.

[INSERT NAME]

By: _____

Name:

Title:

ISO NEW ENGLAND INC.

By: _____

Name:

Title:

ATTACHMENT 2
SAMPLE STANDBY LETTER OF CREDIT

[DATE PROVIDED]

IRREVOCABLE STANDBY LETTER OF CREDIT NO.

[EXPIRATION DATE]

WE DO HEREBY ISSUE THIS IRREVOCABLE NON-TRANSFERABLE STANDBY LETTER OF CREDIT BY ORDER OF AND FOR THE ACCOUNT OF [POSTING ENTITY OR AFFILIATE OF POSTING ENTITY ON BEHALF OF POSTING ENTITY] (“ACCOUNT PARTY”) IN FAVOR OF ISO NEW ENGLAND INC. (“ISO” OR “BENEFICIARY”) (“STANDBY LETTER OF CREDIT”).

THIS STANDBY LETTER OF CREDIT IS IRREVOCABLE AND IS ISSUED, PRESENTABLE AND PAYABLE AND WE GUARANTY TO THE DRAWERS, ENDORSERS AND BONA FIDE HOLDERS OF THIS STANDBY LETTER OF CREDIT THAT DRAFTS UNDER AND IN COMPLIANCE WITH THE TERMS OF THIS STANDBY LETTER OF CREDIT WILL BE HONORED ON PRESENTATION OF THIS STANDBY LETTER OF CREDIT.

THIS STANDBY LETTER OF CREDIT IS AVAILABLE IN ONE OR MORE DRAFTS AND MAY BE DRAWN HEREUNDER FOR THE ACCOUNT OF THE ACCOUNT PARTY UP TO AN AMOUNT NOT EXCEEDING US\$ _____.00 (UNITED STATES DOLLARS _____ AND 00/100) .

THIS STANDBY LETTER OF CREDIT IS DRAWN AGAINST BY PRESENTATION TO US AT OUR OFFICE LOCATED AT THE FOLLOWING ADDRESS:

A DRAWING CERTIFICATE SIGNED BY A PURPORTED OFFICER OR AUTHORIZED AGENT OF THE ISO AND DATED THE DATE OF PRESENTATION CONTAINING THE FOLLOWING STATEMENT:

“THE UNDERSIGNED HEREBY CERTIFIES TO [BANK] (“ISSUER”), WITH REFERENCE TO IRREVOCABLE NON-TRANSFERABLE STANDBY LETTER OF CREDIT NO. [-----] ISSUED BY ISSUER IN FAVOR OF ISO NEW ENGLAND INC. (“ISO”), THAT [POSTING ENTITY] HAS FAILED TO PAY THE ISO, IN ACCORDANCE WITH THE TERMS AND PROVISIONS OF THE TARIFF FILED BY THE ISO, AND THUS THE ISO IS DRAWING UPON THE STANDBY LETTER OF CREDIT IN AN AMOUNT EQUAL TO \$ _____.”

IF PRESENTATION OF ANY DRAWING CERTIFICATE IS MADE ON A BUSINESS DAY AND SUCH PRESENTATION IS MADE AT OUR COUNTERS ON OR BEFORE 10:00 A.M. _____ TIME, WE SHALL SATISFY SUCH DRAWING REQUEST ON THE SAME BUSINESS DAY. IF THE DRAWING CERTIFICATE IS RECEIVED AT OUR COUNTERS AFTER 10:00 A.M. _____ TIME, WE WILL SATISFY SUCH DRAWING REQUEST ON THE NEXT BUSINESS DAY. FOR THE PURPOSES OF THIS SECTION, A BUSINESS DAY MEANS A DAY, OTHER THAN A SATURDAY OR SUNDAY, ON WHICH THE FEDERAL RESERVE BANK OF NEW YORK IS NOT AUTHORIZED OR REQUIRED TO BE CLOSED. DISBURSEMENTS SHALL BE IN ACCORDANCE WITH THE INSTRUCTIONS OF THE ISO.

THE FOLLOWING TERMS AND CONDITIONS APPLY:

THIS STANDBY LETTER OF CREDIT SHALL EXPIRE AT THE CLOSE OF BUSINESS [DATE] [AT LEAST 120 DAYS AFTER ISSUANCE FOR NEW POSTING ENTITIES].

THE AMOUNT WHICH MAY BE DRAWN BY YOU UNDER THIS STANDBY LETTER OF CREDIT SHALL BE AUTOMATICALLY REDUCED BY THE AMOUNT OF ANY DRAWINGS HEREUNDER AT OUR COUNTERS. ANY NUMBER OF PARTIAL DRAWINGS ARE PERMITTED FROM TIME TO TIME HEREUNDER.

ALL COMMISSIONS AND CHARGES WILL BE BORNE BY THE ACCOUNT PARTY.

THIS STANDBY LETTER OF CREDIT IS NOT TRANSFERABLE OR ASSIGNABLE. THIS STANDBY LETTER OF CREDIT DOES NOT INCORPORATE AND SHALL NOT BE DEEMED MODIFIED, AMENDED OR AMPLIFIED BY REFERENCE TO ANY

DOCUMENT, INSTRUMENT OR AGREEMENT (A) THAT IS REFERRED TO HEREIN (EXCEPT FOR THE ISP, AS DEFINED BELOW) OR (B) IN WHICH THIS STANDBY LETTER OF CREDIT IS REFERRED TO OR TO WHICH THIS STANDBY LETTER OF CREDIT RELATES.

THIS STANDBY LETTER OF CREDIT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE INTERNATIONAL STANDBY PRACTICES ("ISP98") OF THE INTERNATIONAL CHAMBER OF COMMERCE PUBLICATION NO. 590, INCLUDING ANY AMENDMENTS, MODIFICATIONS, OR REVISIONS THEREOF (THE "ISP"), EXCEPT TO THE EXTENT THAT THE TERMS HEREOF ARE INCONSISTENT WITH THE PROVISIONS OF THE ISP, IN WHICH CASE THE TERMS OF THIS STANDBY LETTER OF CREDIT SHALL GOVERN. THIS STANDBY LETTER OF CREDIT SHALL BE GOVERNED BY THE INTERNAL LAWS OF THE COMMONWEALTH OF MASSACHUSETTS TO THE EXTENT THAT THE TERMS ARE NOT GOVERNED BY THE ISP.

THIS STANDBY LETTER OF CREDIT MAY NOT BE AMENDED, CHANGED OR MODIFIED WITHOUT THE EXPRESS WRITTEN CONSENT OF THE ISO AND ISSUER.

WE HEREBY ENGAGE WITH YOU THAT DOCUMENTS DRAWN UNDER AND IN COMPLIANCE WITH THE TERMS OF THIS STANDBY LETTER OF CREDIT SHALL BE DULY HONORED UPON PRESENTATION AS SPECIFIED AND WE REPRESENT THAT THE ACCOUNT PARTY IS NOT AN AFFILIATE OF THE ISSUER.

PRESENTATION OF ANY DRAWING CERTIFICATE UNDER THIS STANDBY LETTER OF CREDIT MAY BE SENT TO US BY COURIER, CERTIFIED MAIL, REGISTERED MAIL, OR FACSIMILE (WITH A CONFIRMING COPY OF SUCH FACSIMILE SENT AFTER THE DRAWING BY CERTIFIED MAIL TO THE ADDRESS SET FORTH BELOW; PROVIDED HOWEVER, THAT THE CONFIRMING COPY SHALL NOT BE A PREREQUISITE FOR US TO HONOR ANY PRESENTATION OTHERWISE MADE IN ACCORDANCE WITH THE TERMS OF THIS STANDBY LETTER OF CREDIT), OR SUCH OTHER ADDRESS AS MAY HEREAFTER BE FURNISHED BY US. OTHER NOTICES CONCERNING THIS STANDBY LETTER OF CREDIT MAY BE SENT BY SIMILAR COMMUNICATIONS FACILITY TO THE RESPECTIVE

ADDRESSES SET FORTH BELOW. ALL SUCH NOTICES AND COMMUNICATIONS SHALL BE EFFECTIVE WHEN ACTUALLY RECEIVED BY THE INTENDED RECIPIENT PARTY.

IF TO THE BENEFICIARY OF THIS STANDBY LETTER OF CREDIT:

ISO NEW ENGLAND INC.

ATTENTION: CREDIT DEPARTMENT

1 SULLIVAN RD. HOLYOKE, MA 01040

FAX: 413-540-4569

EMAIL: CREDITDEPARTMENT@ISO-NE.COM

IF TO THE ACCOUNT PARTY:

[NAME]

[ADDRESS]

[FAX]

[PHONE]

IF TO ISSUER:

[NAME]

[ADDRESS]

[FAX]

[PHONE]

[signature]

[signature]

ATTACHMENT 3

ISO NEW ENGLAND MINIMUM CRITERIA FOR MARKET PARTICIPATION OFFICER CERTIFICATION FORM

Certifying Entity:	
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I, _____, a duly authorized Senior Officer of _____ (“Certifying Entity”), understanding that ISO New England Inc. is relying on this certification as evidence that Certifying Entity meets the minimum criteria for market participation requirements set forth in Sections II.A.2 and II.A.3 of the ISO New England Financial Assurance Policy (Exhibit IA to Section I of the ISO New England Transmission, Markets and Services Tariff) (the “Policy”), hereby certify that I have full authority to bind Certifying Entity and further certify as follows:

1. Certifying Entity has established or contracted for written policies, procedures, and controls applicable to participation in the New England Markets, approved by Certifying Entity’s independent risk management function¹, which provide an appropriate, comprehensive risk management framework that, at a minimum, clearly identifies and documents the range of risks to which Certifying Entity is exposed, including, but not limited to, credit risk, liquidity risk, concentration risk, default risk, operation risk, and market risk.
2. Certifying Entity has established or contracted for appropriate training of relevant personnel that is applicable to its participation in the New England Markets.
3. Certifying Entity has appropriate operating procedures and technical abilities to promptly and effectively respond to all ISO New England communications and directions.

I acknowledge that I have read and understand the provisions of the Policy, including those provisions describing ISO New England’s minimum criteria for market participation requirements and the remedies available to ISO New England in the event of a customer or applicant not satisfying those requirements. I acknowledge that the information provided herein true, complete, and correct and is not misleading or incomplete for any reason, including by reason of omission.

(Signature)

Print Name: _____

Title: _____

Date: _____

¹ As used in this certification, a Certifying Entity’s “independent risk management function” can include appropriate corporate persons or bodies that are independent of the Certifying Entity’s trading functions, such as a risk management committee, a risk officer, a Certifying Entity’s board or board committee, or a board or committee of the Certifying Entity’s parent company.

ATTACHMENT 4
ISO NEW ENGLAND ADDITIONAL ELIGIBILITY REQUIREMENTS
CERTIFICATION FORM

Certifying Entity:	
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I, _____, a duly authorized Senior Officer of
_____ (“Certifying Entity”), understanding that ISO New England Inc. is relying on this certification as evidence that Certifying Entity meets the additional eligibility requirements set forth in Section II.A.5 of the ISO New England Financial Assurance Policy (Exhibit IA to Section I of the ISO New England Inc. Transmission, Markets and Services Tariff) (the “Policy”), hereby certify that I have full authority to bind Certifying Entity and further certify as follows:

1. Certifying Entity is now and in good faith will seek to remain (check applicable box(es)):

- ☐ an “appropriate person,” as defined in section(s) [_____] of the Commodity Exchange Act (7 U.S.C. § 1 *et seq.*) (specify which section(s) of Commodity Exchange Act sections 4(c)(3)(A) through (J) apply)) (if Certifying Entity is relying on section 4(c)(3)(F), it shall accompany this certification with supporting documentation reasonably acceptable to the ISO, provided that letters of credit shall be in the form of Attachment 2 to the ISO New England Financial Assurance Policy and shall be in an amount equal to the difference between five million dollars and the Certifying Entity’s total assets. Any such supporting documentation shall serve to establish eligibility under this Section II.A.5 and shall not be counted toward satisfaction of the total financial assurance requirements as calculated pursuant to the ISO New England Financial Assurance Policy);
- ☐ an “eligible contract participant,” as defined in section 1a(18)(A) of the Commodity Exchange Act and in 17 CFR § 1.3(m); or
- ☐ a “person who actively participates in the generation, transmission, or distribution of electric energy,” as defined in the Final Order of the Commodity Futures Trading Commission published at 78 FR 19880 (April 2, 2013).

2. If at any time Certifying Entity no longer satisfies the criteria in paragraph 1 above, Certifying Entity will immediately notify ISO New England in writing and will immediately cease all participation in the New England Markets.

I acknowledge that I have read and understand the provisions of the Policy, including those provisions describing ISO New England’s additional eligibility requirements and the remedies available to ISO New England in the event of a customer or applicant not satisfying those requirements. I acknowledge that the information provided herein true, complete, and correct and is not misleading or incomplete for any reason, including by reason of omission.

(Signature)

Print Name: _____

Title: _____

Date: _____

ATTACHMENT 5

**ISO NEW ENGLAND CERTIFICATE REGARDING CHANGES TO SUBMITTED RISK
MANAGEMENT POLICIES FOR FTR PARTICIPATION**

Certifying Entity:	
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I, _____, a duly authorized Senior Officer of
_____ (“Certifying Entity”), understanding that ISO New
England Inc. is relying on this certification as evidence that Certifying Entity meets the annual certification
requirement for FTR market participation regarding its risk management policies, procedures, and controls
set forth in Section II.A.2(b) of the ISO New England Financial Assurance Policy (Exhibit IA to Section I
of the ISO New England Inc. Transmission, Markets and Services Tariff) (the “Policy”), hereby certify that
I have full authority to bind Certifying Entity and further certify as follows (check applicable box):

1. ☐ There have been no changes to the previously submitted written risk management policies,
procedures, and controls (and any supporting documentation, if applicable) applicable to the
Certifying Entity’s participation in the FTR market.

OR

2. ☐ There have been changes to the previously submitted written risk management policies,
procedures, and controls (and any supporting documentation, if applicable) applicable to the
Certifying Entity’s participation in the FTR market and such changes are clearly identified and
attached hereto.*

I acknowledge that I have read and understand the provisions of the Policy, including those provisions
describing ISO New England’s risk management policy requirements for FTR market participants and the
remedies available to ISO New England in the event of a customer or applicant not satisfying those
requirements. I acknowledge that the information provided herein true, complete, and correct and is not
misleading or incomplete for any reason, including by reason of omission.

(Signature)

Print Name: _____

Title: _____

Date: _____

* As used in this certificate, “clearly identified” changes may include a redline comparing the
current written risk management policies, procedures, and controls and the previously submitted
written risk management policies, procedures, and controls; or resubmission of the written risk
management policies, procedures, and controls with a bulleted list of all changes, including
section and/or page numbers.

ATTACHMENT 6
MINIMUM CRITERIA FOR MARKET PARTICIPATION
INFORMATION DISCLOSURE FORM

Date: _____

Prepared by: _____

Customer/Applicant:¹ _____

I, _____, a duly authorized Senior Officer of _____ (“Certifying Entity”), understanding that ISO New England Inc. (“ISO”) is relying on this certification provided pursuant to Financial Assurance Policy Section II.A.1(a), hereby certify that I have full authority to bind Certifying Entity and further certify on behalf of Certifying Entity that the information contained herein is true, complete, and correct and is not misleading or incomplete for any reason, including by reason of omission:

1. List of all Principals.² Please discuss each Principal’s relationship with the Certifying Entity and describe each Principal’s previous experience related to participation in North American wholesale or retail energy markets or trading exchanges:
2. List all material litigation (criminal or civil) against Certifying Entity or any of the Certifying Entity’s Principals, Personnel,³ or Predecessors,⁴ arising out of participation in any wholesale or retail energy market (domestic or international) or trading exchanges in the past ten (10) years:

¹ Customer and Applicant are each defined in Section II.A of the ISO New England Financial Assurance Policy, Exhibit 1A to Section 1 of the ISO Transmission, Markets, and Services Tariff (“Tariff”). Capitalized terms used but not otherwise defined herein shall have the meaning given to them in the Tariff.

² Principal is (i) the sole proprietor of a sole proprietorship; (ii) a general partner of a partnership; (iii) a president, chief executive officer, chief operating officer or chief financial officer (or equivalent position) of an organization; (iv) a manager, managing member or a member vested with the management authority for a limited liability company or limited liability partnership; (v) any person or entity that has the power to exercise a controlling influence over an organization’s activities that are subject to regulation by the Federal Energy Regulatory Commission (“FERC”), the Securities and Exchange Commission (“SEC”), the Commodity Futures Trading Commission (“CFTC”), any exchange monitored by the National Futures Association (“NFA”), or any state entity responsible for regulating activity in energy markets; or (vi) any person or entity that: (a) is the direct owner of 10% or more of any class of an organization’s equity securities; or (b) has directly contributed 10% or more of an organization’s capital.

³ Personnel means any person, current or former, responsible for decision making regarding Certifying Entity’s transaction of business in the New England Markets, including, without limitation, decisions regarding risk management and trading, or any person, current or former, with access to enter transactions into ISO systems. Disclosures regarding former Personnel shall only be required for when such Personnel was employed by Certifying Entity.

⁴ Predecessor shall mean any person or entity whose liabilities, including liabilities arising under the Tariff, have or may have been retained or assumed by Certifying Entity, either contractually, by operation of law or considering all relevant factors, including the interconnectedness of the business relationships, overlap in relevant personnel, similarity of business activities, overlap of customer base.

- (Enter N/A if not applicable)*
3. List all sanctions issued against or imposed upon Certifying Entity, Certifying Entity's Principals, Personnel, or Predecessors, by the FERC, the SEC, the CFTC, any exchange monitored by the NFA, or any entity responsible for regulating activity in any wholesale or retail energy market (domestic or international) or trading exchanges where such sanctions were either imposed in the past ten (10) years or, if imposed prior to that, are still in effect. List all known material ongoing investigations regarding Certifying Entity, Certifying Entity's Principals, Personnel, or Predecessors, imposed by the FERC, the SEC, the CFTC, any exchange monitored by the NFA, or any entity responsible for regulating activity in any wholesale or retail energy market (domestic or international) or trading exchanges:
(Enter N/A if not applicable)
4. Provide a summary of any bankruptcy, dissolution, merger, or acquisition of Certifying Entity in the past ten (10) years (include date, jurisdiction, and other relevant details):
(Enter N/A if not applicable)
5. List all wholesale or retail energy market-related operations in North America where Certifying Entity is currently participating, or, in the past five (5) years, has previously participated other than in the New England Markets (e.g., PJM - FTRs):
(Enter N/A if not applicable)
6. Describe if Certifying Entity or any of Certifying Entity's Principals, Personnel, or any Predecessor of the foregoing ever had its participation or membership in any independent system operator or regional transmission organization (domestic or international) terminated, its registration/membership application denied, or is subject to an existing uncured suspension from participating in the markets of any independent system operator or regional transmission organization (domestic or international), each in the past five (5) years.
(Enter N/A if not applicable)

If you are currently an active participant and this is your annual submission you do not have to complete Question 7 and can skip to the signature block below. If you are in the process of applying for membership with the ISO you are required to answer the additional questions listed below.

7. Describe how Certifying Entity plans to fund its operations, including persons or entities providing financing and such person(s)' or entity(ies)' relationship to the Certifying Entity. Include any relationships that may impact Certifying Entity's ability to (a) comply with the time frames to post financial assurance and/or pay invoices or other amounts owed to the ISO, each as required by the Tariff; or (b) provide a first priority perfected security interest in required financial assurance to the ISO:

Certifying Entity: _____

By: _____
(Signature)

Print Name: _____

Title: _____

Date: _____

** To satisfy the disclosure requirements above, a Certifying Entity may attach additional materials and may provide the ISO with filings made to the SEC or other similar regulatory agencies that include substantially similar information to that required above, provided that Certifying Entity clearly indicates where the specific information is located in those filings.

EXHIBIT IA

ISO NEW ENGLAND FINANCIAL ASSURANCE POLICY

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EXHIBIT IA
ISO NEW ENGLAND FINANCIAL ASSURANCE POLICY

Overview

The procedures and requirements set forth in this ISO New England Financial Assurance Policy shall govern all Applicants, all Market Participants and all Non-Market Participant Transmission Customers. Capitalized terms used in the ISO New England Financial Assurance Policy shall have the meaning specified in Section I.

The purpose of the ISO New England Financial Assurance Policy is (i) to establish minimum criteria for participation in the New England Markets; (ii) to establish a financial assurance policy for Market Participants and Non-Market Participant Transmission Customers that includes commercially reasonable credit review procedures to assess the financial ability of an Applicant, a Market Participant or a Non-Market Participant Transmission Customer to pay for service transactions under the Tariff and to pay its share of the ISO expenses, including amounts under Section IV of the Tariff, and including any applicable Participant Expenses; (iii) to set forth the requirements for alternative forms of security that will be deemed acceptable to the ISO and consistent with commercial practices established by the Uniform Commercial Code that protect the ISO and the Market Participants against the risk of non-payment by other, defaulting Market Participants or by Non-Market Participant Transmission Customers; (iv) to set forth the conditions under which the ISO will conduct business in a nondiscriminatory way so as to avoid the possibility of failure of payment for services rendered under the Tariff; and (v) to collect amounts past due, to collect amounts payable upon billing adjustments, to make up shortfalls in payments, to suspend Market Participants and Non-Market Participant Transmission Customers that fail to comply with the terms of the ISO New England Financial Assurance Policy, to terminate the membership of defaulting Market Participants and to terminate service to defaulting Non-Market Participant Transmission Customers.

I. GROUPS REGARDED AS SINGLE MARKET PARTICIPANTS

In the case of a group of Entities that are treated as a single Market Participant pursuant to Section 4.1 of the Second Restated NEPOOL Agreement (the “RNA”), the group members shall be deemed to have elected to be jointly and severally liable for all debts to Market Participants, PTOs, Non-Market Participant Transmission Customers, NEPOOL and the ISO of any of the group members. For the purposes of the ISO New England Financial Assurance Policy, the term “Market Participant” shall, in the case of a group of members that are treated as a single Market Participant pursuant to Section 4.1 of the RNA, be deemed to refer to the group of members as a whole, and any financial assurance provided

under the ISO New England Financial Assurance Policy will be credited to the account of the group member with the customer identification at the ISO.

II. MARKET PARTICIPANTS' REVIEW AND CREDIT LIMITS

Solely for purposes of the ISO New England Financial Assurance Policy: a "Municipal Market Participant" is any Market Participant that is either (a) a Publicly Owned Entity except for an electric cooperative or an organization including one or more electric cooperatives as used in Section 1 of the RNA or (b) a municipality, an agency thereof, a body politic or a public corporation (i) that is created under the authority of any state or province that is adjacent to one of the New England states, (ii) that is authorized to own, lease and operate electric generation, transmission or distribution facilities and (iii) that has been approved for treatment as a Municipal Market Participant by the ISO after consultation with the NEPOOL Budget and Finance Subcommittee. Market Participants that are not Municipal Market Participants are referred to as "Non-Municipal Market Participants."

A. Minimum Criteria for Market Participation

Any entity participating or seeking to participate in the New England Markets shall comply with the requirements of this Section II.A. For purposes of this Section II.A, the term "customer" shall refer to both Market Participants and Non-Market Participant Transmission Customers and the word "applicant" shall refer to both applicants for Market Participant status and applicants for transmission service from the ISO.

1. Information Disclosure

- (a) Each customer and applicant, on an annual basis (by April 30 each year) shall submit a completed information form in the form of (with only minor, non-material changes) and with the information required by Attachment 6 to the ISO New England Financial Assurance Policy. Customer or applicant shall not be required to disclose information required by Attachment 6 if such disclosure is prohibited by law; provided, however, if the disclosure of any information required by Attachment 6 is prohibited by law, then customer or applicant shall use reasonable efforts to obtain permission to make such disclosure. This information shall be treated as Confidential Information, but its disclosure pursuant to subsection (b) below is expressly permitted in accordance with the terms of the ISO New England Information Policy. Customers and applicants may satisfy the requirements above by providing the ISO with filings made to the Securities

and Exchange Commission or other similar regulatory agencies that include substantially similar information to that required above, provided, however, that the customer or applicant must clearly indicate where the specific information is located in those filings. An applicant that fails to provide this information will be prohibited from participating in the New England Markets until the deficiency is rectified. If a customer fails to provide this information by end of business on April 30, then the ISO shall issue a notice of such failure to the customer on the next Business Day and, if the customer does not provide the information to the ISO within 5 Business Days after issuance of such notice, then the customer will be suspended as described in Section III.B.3 of the ISO New England Financial Assurance Policy until the deficiency is rectified.

- (b) The ISO will review the information provided pursuant to subsection (a) above, and will also review whether the customer or applicant or any of the Principals of the customer or applicant are included on any relevant list maintained by the U.S. Office of Foreign Asset Control. If, after review of the information provided pursuant to subsection (a) above or any other information disclosed pursuant to this Section II, the ISO in its sole discretion requires additional information to make its analysis under this subsection (b), the ISO may require additional information from the customer or applicant. If, based on these reviews, the ISO determines that the commencement or continued participation of such customer or applicant in the New England Markets may present an unreasonable risk to those markets or its Market Participants, the Chief Financial Officer of the ISO shall promptly forward to the Participants Committee or its delegate, for its input, such concerns, together with such background materials deemed by the ISO to be necessary for the Participants Committee or its delegate to develop an informed opinion with respect to the identified concerns, including any measures that the ISO may recommend imposing as a condition to the commencement or continued participation in the markets by such customer or applicant (including suspension) or the ISO's recommendation to prohibit or terminate participation by the customer or applicant in the New England Markets. The ISO shall consider the input of the Participants Committee or its delegate before taking any action to address the identified concerns. If the ISO chooses to impose measures other than prohibition (in the case of an applicant) or termination (in the case of a customer) of participation in the New England Markets, then the ISO shall be required to make an informational filing with the Commission as soon as reasonably practicable after taking such action. If the ISO chooses to prohibit (in the case of an applicant) or

terminate (in the case of a customer) participation in the New England Markets, then the ISO must file for Commission approval of such action, and the prohibition or termination shall become effective only upon final Commission ruling. No action by the ISO pursuant to this subsection (b) shall limit in any way the ISO's rights or authority under any other provisions of the ISO New England Financial Assurance Policy or the ISO New England Billing Policy.

2. Risk Management

- (a) Each customer and applicant shall submit, on an annual basis (by April 30 each year), a certificate in the form of Attachment 3 to the ISO New England Financial Assurance Policy stating that the customer or applicant has: (i) either established or contracted for risk management procedures that are applicable to participation in the New England Markets; and (ii) has established or contracted for appropriate training of relevant personnel that is applicable to its participation in the New England Markets. The certificate must be signed on behalf of the customer or applicant by a Senior Officer of the customer or applicant. An applicant that fails to provide this certificate will be prohibited from participating in the New England Markets until the deficiency is rectified. If a customer fails to provide this certificate by end of business on April 30, then the ISO shall issue a notice of such failure to the customer on the next Business Day and, if the customer does not provide the certificate to the ISO within 5 Business Days after issuance of such notice, then the customer will be suspended as described in Section III.B.3 of the ISO New England Financial Assurance Policy until the deficiency is rectified.
- (b) Each applicant prior to commencing activity in the FTR market shall submit to the ISO or its designee the written risk management policies, procedures, and controls, including, if requested by the ISO in its sole discretion, supporting documentation (which may include an organizational chart (or portion thereof) or equivalent information) that demonstrates the segregation of duties within such risk policies, procedures, and controls of the such customer or applicant, applicable to its participation in the FTR market relied upon by the Senior Officer of the applicant signing the certificate provided pursuant to Section II.A.2
 - (a). On an annual basis (by April 30 each year), each Designated FTR Participant with FTR transactions in any of the previous twelve months or in any currently open month

that exceed 1,000 MW per month (on a net basis, as described in the FTR Financial Assurance Requirements provisions in Section VI) shall submit to the ISO or its designee a certificate in the form of Attachment 5 to the ISO New England Financial Assurance Policy stating that, since the customer's delivery of its risk management policies, procedures, and controls (and any supporting documentation, if applicable) or its last certificate pursuant to this Section II.A.2(b), the customer either: (i) has not made any changes to the previously submitted written risk management policies, procedures, and controls (and any supporting documentation, if applicable); or (ii) that changes have been made to the previously submitted written risk management policies, procedures, and controls (and any supporting documentation, if applicable) and that all such changes are clearly identified and attached to such certificate. If any such applicant fails to submit the relevant written policies, procedures, and controls, then the applicant will be prohibited from participating in the FTR market. If any such customer fails to provide a certificate in the form of Attachment 5 by end of business on April 30, then the ISO shall issue a notice of such failure to the customer, and if the customer does not provide the certificate to the ISO within two Business Days after issuance of such notice, then the customer will be suspended (as described in Section III.B.3.c of the ISO New England Financial Assurance Policy) from entering into any future transactions in the FTR system.

The ISO, at its sole discretion, may also require any applicant or customer to submit to the ISO or its designee the written risk management policies, procedures, and controls, including supporting documentation (which may include an organizational chart (or portion thereof) or equivalent information) that demonstrates the segregation of duties within such risk policies, procedures, and controls of the such customer or applicant, that are applicable to its participation in the New England Markets relied upon by the Senior Officer of the applicant or customer signing the certificate provided pursuant to Section II.A.2(a). The ISO may require such submissions based on identified risk factors that include, but are not limited to, the markets in which the customer is transacting or the applicant seeks to transact, the magnitude of the customer's transactions or the applicant's potential transactions, or the volume of the customer's open positions. Where the ISO notifies an applicant or customer that such a submission is required, the submission shall be due within 5 Business Days of the notice. If an applicant fails to submit the relevant written policies, procedures, and controls as required, then the applicant will be prohibited from participating in the New England Markets. If a

customer fails to submit the relevant written policies, procedures, and controls, then the ISO shall issue a notice of such failure to the customer, and if the customer fails to submit the relevant written policies, procedures, and controls to the ISO or its designee within two Business Days after issuance of such notice, then the customer will be suspended (as described in Section III.B of the ISO New England Financial Assurance Policy).

The applicant's or customer's written policies, procedures, controls, and any supporting documentation, received by the ISO or its designee pursuant to this subsection (b) shall be treated as Confidential Information.

- (c) Where an applicant or customer submits risk management policies, procedures, and controls, or supporting documentation to the ISO or its designee pursuant to any provision of subsection (b) above, the ISO or its designee shall assess that those policies, procedures, and controls conform to prudent risk management practices, which include, but are not limited to: (i) addressing market, credit, and operational risk; (ii) segregating roles, responsibilities, and functions in the organization; (iii) establishing delegations of authority that specify which transactions traders are authorized to enter into; (iv) ensuring that traders have sufficient training in systems and the markets in which they transact; (v) placing risk limits to control exposure; (vi) requiring reports to ensure that risks are adequately communicated throughout the organization; (vii) establishing processes for independent confirmation of executed transactions; and (viii) establishing periodic valuation or mark-to-market of risk positions as appropriate.

Where, as a result of the assessment described above in this subsection (c), the ISO or its designee believes that the applicant's or customer's written policies, procedures, and controls do not conform to prudent risk management practices, then the ISO or its designee shall provide notice to the applicant or customer explaining the deficiencies. The applicant or customer shall revise its policies, procedures, and controls to address the deficiencies within 55 days after issuance of such notice. (If April 30 falls within that 55 day window, the ISO may choose not to require a separate submission on April 30 as described in subsection (b) above.) If an applicant's revised written policies, procedures, and controls do not adequately address the deficiencies identified in the notice, then the applicant will be prohibited from participating in the New England Markets. If a customer's revised written policies, procedures, and controls do not adequately address

the deficiencies identified in the notice, then the customer will be suspended (as described in Section III.B of the ISO New England Financial Assurance Policy).

3. Communications

Each customer and applicant shall submit, on an annual basis (by April 30 each year), a certificate in the form of Attachment 3 to the ISO New England Financial Assurance Policy stating that the customer or applicant has either established or contracted to establish procedures to effectively communicate with and respond to the ISO with respect to matters relating to the ISO New England Financial Assurance Policy and the ISO New England Billing Policy. Such procedures must ensure, at a minimum, that at least one person with the ability and authority to address matters related to the ISO New England Financial Assurance Policy and the ISO New England Billing Policy on behalf of the customer or applicant, including the ability and authority to respond to requests for information and to arrange for additional financial assurance as necessary, is available from 9:00 a.m. to 5:00 p.m. Eastern Time on Business Days. Such procedures must also ensure that the ISO is kept informed about the current contact information (including phone numbers and e-mail addresses) for the person or people described above. The certificate must be signed on behalf of the customer or applicant by a Senior Officer of the customer or applicant. An applicant that fails to provide this certificate will be prohibited from participating in the New England Markets until the deficiency is rectified. If a customer fails to provide this certificate by end of business on April 30, then the ISO shall issue a notice of such failure to the customer on the next Business Day and, if the customer does not provide the certificate to the ISO within 5 Business Days after issuance of such notice, then the customer will be suspended as described in Section III.B.3 of the ISO New England Financial Assurance Policy until the deficiency is rectified.

4. Capitalization

- (a) To be deemed as meeting the capitalization requirements, a customer or applicant shall either:
 - (i) be Rated and have a Governing Rating that is an Investment Grade Rating of BBB-/Baa3 or higher;
 - (ii) maintain a minimum Tangible Net Worth of one million dollars; or

- (iii) maintain a minimum of ten million dollars in total assets, provided that, to meet this requirement, a customer or applicant may supplement total assets of less than ten million dollars with additional financial assurance in an amount equal to the difference between ten million dollars and the customer's or applicant's total assets in one of the forms described in Section X (any additional financial assurance provided pursuant to this Section II.A.4(a) shall not be counted toward satisfaction of the total financial assurance requirements as calculated pursuant to the ISO New England Financial Assurance Policy).
- (b) Any customer or applicant that fails to meet these capitalization requirements will be suspended (as described in Section III.B.3.c of the ISO New England Financial Assurance Policy) from entering into any future transactions of a duration greater than one month in the FTR system or any future transactions for a duration of one month or less except when FTRs for a month are being auctioned for the final time. Such a customer or applicant may enter into future transaction of a duration of one month or less in the FTR system in the case of FTRs for a month being auctioned for the final time. Any customer or applicant that fails to meet these capitalization requirements shall provide additional financial assurance in one of the forms described in Section X of the ISO New England Financial Assurance Policy equal to 25 percent of the customer's or applicant's FTR Financial Assurance Requirements. Any additional financial assurance provided pursuant to this Section II.A.4(b) shall not be counted toward satisfaction of the total financial assurance requirements as calculated pursuant to the ISO New England Financial Assurance Policy.
- (c) For markets other than the FTR market:
- (i) Where a customer or applicant fails to meet the capitalization requirements, the customer or applicant will be required to provide an additional amount of financial assurance in one of the forms described in Section X of the ISO New England Financial Assurance Policy in an amount equal to 25 percent of the customer's or applicant's total financial assurance requirement, excluding the following:
- FTR Financial Assurance Requirements; and
 - FCM Delivery Financial Assurance for customers or applicants that are assessed as medium risk or high risk per the Corporate Liquidity

Assessment (as described in Section VII.A below) from the start of the Capacity Commitment Period related to the sixteenth Forward Capacity Auction (i.e., June 1, 2025) or any Capacity Commitment Period thereafter.

- (ii) An applicant that fails to provide the full amount of additional financial assurance required as described in subsection (i) above will be prohibited from participating in the New England Markets until the deficiency is rectified. For a customer, failure to provide the full amount of additional financial assurance required as described in subsection (i) above will have the same effect and will trigger the same consequences as exceeding the “100 Percent Test” as described in Section III.B.2.c of the ISO New England Financial Assurance Policy.
- (iii) Any additional financial assurance provided pursuant to this Section II.A.4(c) shall not be counted toward satisfaction of the total financial assurance requirements as calculated pursuant to the ISO New England Financial Assurance Policy.

5. Additional Eligibility Requirements

All customers and applicants shall at all times be:

- (a) An “appropriate person,” as defined in sections 4(c)(3)(A) through (J) of the Commodity Exchange Act (7 U.S.C. § 1 *et seq.*);
- (b) An “eligible contract participant,” as defined in section 1a(18)(A) of the Commodity Exchange Act and in 17 CFR § 1.3(m); or
- (c) A “person who actively participates in the generation, transmission, or distribution of electric energy,” as defined in the Final Order of the Commodity Futures Trading Commission published at 78 FR 19880 (April 2, 2013).

Each customer must demonstrate compliance with the requirements of this Section II.A.5 by submitting to the ISO on or before September 15, 2013 a certificate in the form of Attachment 4 to the ISO New England Financial Assurance Policy that (i) certifies that the customer is now and in good faith will seek to remain in compliance with the requirements of this Section II.A.5 and (ii) further certifies that if it no longer satisfies these requirements it shall immediately notify the ISO in writing and shall immediately

cease all participation in the New England Markets. If the customer is relying on section 4(c)(3)(F) of the Commodity Exchange Act, it shall accompany the certification with supporting documentation reasonably acceptable to the ISO, provided that letters of credit shall be in the form of Attachment 2 to the ISO New England Financial Assurance Policy and shall be in an amount equal to the difference between five million dollars and the customer's total assets. Any such supporting documentation shall serve to establish eligibility under this Section II.A.5 and shall not be counted toward satisfaction of the total financial assurance requirements as calculated pursuant to the ISO New England Financial Assurance Policy. The certificate must be signed on behalf of the customer by a Senior Officer of the customer. A customer that fails to provide this certificate by September 15, 2013 shall be immediately suspended and the ISO shall initiate termination proceedings against the customer.

Each applicant must submit with its membership application a certificate in the form of Attachment 4 to the ISO New England Financial Assurance Policy that (i) certifies that the applicant is now and in good faith will seek to remain in compliance with the requirements of this Section II.A.5 and (ii) further certifies that if it no longer satisfies these requirements it shall immediately notify the ISO in writing and shall immediately cease all participation in the New England Markets. If the applicant is relying on section 4(c)(3)(F) of the Commodity Exchange Act, it shall accompany the certification with supporting documentation reasonably acceptable to the ISO, provided that letters of credit shall be in the form of Attachment 2 to the ISO New England Financial Assurance Policy and shall be in an amount equal to the difference between five million dollars and the applicant's total assets. Any such supporting documentation shall serve to establish eligibility under this Section II.A.5 and shall not be counted toward satisfaction of the total financial assurance requirements as calculated pursuant to the ISO New England Financial Assurance Policy. The certificate must be signed on behalf of the applicant by a Senior Officer of the applicant.

The ISO, at its sole discretion, may require any applicant or customer to submit to the ISO documentation in support of the certification provided pursuant to this Section II.A.5. If at any time the ISO becomes aware that a customer no longer satisfies the requirements of this Section II.A.5, the customer shall be immediately suspended and the ISO shall initiate termination proceedings against the customer.

6. Prior Uncured Defaults

In addition to, and not in limitation of Section IV of the ISO New England Financial Assurance Policy, an applicant who has a previous uncured payment default must cure such payment default by payment to the ISO of all outstanding and unpaid obligations, as well as meet all requirements for participation in the New England Markets contained in the ISO New England Financial Assurance Policy. For purposes of this Section II.A.6 and the ISO's evaluation of information disclosed pursuant to Section II of the ISO New England Financial Assurance Policy, the ISO will evaluate relevant factors to determine if an entity seeking to participate in the New England Markets under a different name, affiliation, or organization, should be treated as the same customer or applicant that experienced the previous payment default. Such factors may include, but are not limited to, the interconnectedness of the business relationships, overlap in relevant personnel, similarity of business activities, overlap of customer base, and the business engaged in prior to the attempted re-entry. Notwithstanding the foregoing, an applicant shall not be required to cure a payment default that has lawfully been discharged pursuant to the U.S. Bankruptcy Code.

B. Proof of Financial Viability for Applicants

Each Applicant must, with its membership application and at its own expense, submit proof of financial viability, as described below, satisfying the ISO requirements to demonstrate the Applicant's ability to meet its obligations. Each Applicant that intends to establish a Market Credit Limit or a Transmission Credit Limit of greater than \$0 under Section II.D or Section II.E below must submit to the ISO all current rating agency reports from Standard and Poor's ("S&P"), Moody's and/or Fitch (collectively, the "Rating Agencies"). Each Applicant, whether or not it intends to establish a Market Credit Limit or Transmission Credit Limit of greater than \$0, must submit to the ISO audited financial statements for the two most recent years, or the period of its existence, if less than two years, and unaudited financial statements for its last concluded fiscal quarter if they are not included in such audited annual financial statements. These unaudited statements must be certified as to their accuracy by a Senior Officer of such Applicant, which, for purposes of ISO New England Financial Assurance Policy, means an officer of the subject entity with the title of vice president (or similar office) or higher,

or another officer designated in writing to the ISO by that officer. These audited and unaudited statements must include in each case, but are not limited to, the following information to the extent available: balance sheets, income statements, statements of cash flows and notes to financial statements, annual and quarterly reports, and 10-K, 10-Q and 8-K Reports. If any of these financial statements are available on the internet, the Applicant may provide instead a letter to the ISO stating where such statement may be located and retrieved. If any of the information or documentation required by this section is not available, alternate requirements may be specified by the ISO, at the ISO's sole discretion (such alternate requirements may include, but are not limited to: (i) consolidating statements or other financial statements (in the case of a stand-alone subsidiary) that are certified as to their accuracy and basis of accounting (in accordance with international accounting standards or generally accepted accounting principles in the United States) by an officer of the entity with the title of chief financial officer or equivalent position; (ii) reviewed statements; or (iii) compiled statements).

In addition, each Applicant, whether or not it intends to establish a Market Credit Limit or a Transmission Credit Limit, must submit to the ISO: (i) at least one (1) bank reference and three (3) utility company credit references, or in those cases where an Applicant does not have three (3) utility company credit references, three (3) major trade payable vendor references may be substituted; and (ii) relevant information as to any known or anticipated material lawsuits, as well as any prior bankruptcy declarations by the Applicant, or by its predecessor(s), if any; and (iii) a completed ISO credit application. In the case of certain Applicants, some of the information and documentation described in items (i) and (ii) of the immediately preceding sentence may not be applicable or available, and alternate requirements may be specified by the ISO or its designee in its sole discretion.

The ISO will not begin its review of a Market Participant's credit application or the accompanying material described above until full and final payment of that Market Participant's application fee.

The ISO shall prepare a report, or cause a report to be prepared, concerning the financial viability of each Applicant. In its review of each Applicant, the ISO or its designee shall consider all of the information and documentation described in this Section II. All costs

incurred by the ISO in its review of the financial viability of an Applicant shall be borne by such Applicant and paid at the time that such Applicant is required to pay its first annual fee under the Participants Agreement. For an Applicant applying for transmission service from the ISO, all costs incurred by the ISO shall be paid prior to the ISO's filing of a Transmission Service Agreement. The report shall be provided to the Participants Committee or its designee and the affected Applicant within three weeks of the ISO's receipt of that Applicant's completed application, application fee, and Initial Market Participant Financial Assurance Requirement, unless the ISO notifies the Applicant that more time is needed to perform additional due diligence with respect to its application.

C. Ongoing Review and Credit Ratings

1. Rated and Credit Qualifying Market Participants

A Market Participant that (i) has a corporate rating from one or more of the Rating Agencies, or (ii) has senior unsecured debt that is rated by one or more of the Rating Agencies, is referred to herein as "Rated." A Market Participant that is not Rated is referred to herein as "Unrated."

For all purposes in the ISO New England Financial Assurance Policy, for a Market Participant that is Rated, the lowest corporate rating from any Rating Agency for that Market Participant, or, if the Market Participant has no corporate rating, then the lowest rating from any Rating Agency for that Market Participant's senior unsecured debt, shall be the "Governing Rating."

A Market Participant that is: (i) Rated and whose Governing Rating is an Investment Grade Rating; or (ii) Unrated and that satisfies the Credit Threshold is referred to herein as "Credit Qualifying." A Market Participant that is not Credit Qualifying is referred to herein as "Non-Qualifying."

For purposes of the ISO New England Financial Assurance Policy, "Investment Grade Rating" for a Market Participant (other than an FTR-Only Customer) or Non-Market Participant Transmission Customer is either (a) a corporate investment grade rating from one or more of the Rating Agencies, or (b) if the Market Participant or Non-Market Participant Transmission Customer does not have a corporate rating from one of the

Rating Agencies, then an investment grade rating for the Market Participant's or Non-Market Participant Transmission Customer's senior unsecured debt from one or more of the Rating Agencies.

2. Unrated Market Participants

Any Unrated Market Participant that (i) has not been a Market Participant in the ISO for at least the immediately preceding 365 days; or (ii) has defaulted on any of its obligations under the Tariff (including without limitation its obligations hereunder and under the ISO New England Billing Policy) during such 365-day period; or (iii) is an FTR-Only Customer; or (iv) does not have a Current Ratio of at least 1.0, a Debt-to-Total Capitalization Ratio of 0.6 or less, and an EBITDA-to-Interest Expense Ratio of at least 2.0 must provide an appropriate form of financial assurance as described in Section X below. An Unrated Market Participant that does not meet any of the conditions in clauses (i), (ii), (iii) and (iv) of this paragraph is referred to herein as satisfying the "Credit Threshold."

For purposes of the ISO New England Financial Assurance Policy, "Current Ratio" on any date is all of a Market Participant's or Non-Market Participant Transmission Customer's current assets divided by all of its current liabilities, in each case as shown on the most recent financial statements provided by such Market Participant or Non-Market Participant Transmission Customer to the ISO; "Debt-to-Total Capitalization Ratio" on any date is a Market Participant's or Non-Market Participant Transmission Customer's total debt (including all current borrowings) divided by its total shareholders' equity plus total debt, in each case as shown on the most recent financial statements provided by such Market Participant or Non-Market Participant Transmission Customer to the ISO; and "EBITDA-to-Interest Expense Ratio" on any date is a Market Participant's or Non-Market Participant Transmission Customer's earnings before interest, taxes, depreciation and amortization in the most recent fiscal quarter divided by that Market Participant's or Non-Market Participant Transmission Customer's expense for interest in that fiscal quarter, in each case as shown on the most recent financial statements provided by such Market Participant or Non-Market Participant Transmission Customer to the ISO. The "Debt-to-Total Capitalization Ratio" will not be considered for purposes of determining whether a Municipal Market Participant satisfies the Credit Threshold. Each of the ratios described in this paragraph shall be determined in accordance with international

accounting standards or generally accepted accounting principles in the United States at the time of determination consistently applied.

3. Information Reporting Requirements for Market Participants

Each Market Participant having a Market Credit Limit or Transmission Credit Limit greater than zero or meeting the capitalization requirements by maintaining a minimum Tangible Net Worth or minimum total assets as described in Section II.A.4(a) shall submit to the ISO, on a quarterly basis within 10 days of its becoming available and within 65 days after the end of the applicable fiscal quarter of such Market Participant, its balance sheet, which shall show sufficient detail for the ISO to assess the Market Participant's Tangible Net Worth. Unrated Market Participants having a Market Credit Limit or Transmission Credit Limit greater than zero shall also provide additional financial statements, which shall show sufficient detail for the ISO to calculate such Unrated Market Participant's Current Ratio, Debt-to-Total Capitalization Ratio and EBITDA-to-Interest Expense Ratio. In addition, each Market Participant having a Market Credit Limit or Transmission Credit Limit greater than zero or meeting the capitalization requirements by maintaining a minimum Tangible Net Worth or minimum total assets as described in Section II.A.4(a) shall submit to the ISO, annually within 10 days of their becoming available and within 120 days after the end of the fiscal year of such Market Participant, balance sheets and income statements (balance sheets and income statements that are part of audited financial statements shall be submitted if available; if such balance sheets and income statements are not available, then another alternative form of financial statements accepted by the ISO as described below may be submitted). If any of this financial information is available on the internet, the Market Participant may provide instead a letter to the ISO stating where such information may be located and retrieved. If any of the information or documentation required by this section is not available, alternate requirements may be specified by the ISO (such alternate requirements may include, but are not limited to: (i) consolidating statements or other financial statements (in the case of a stand-alone subsidiary) that are certified as to their accuracy and basis of accounting (in accordance with international accounting standards or generally accepted accounting principles in the United States) by an officer of the entity with the title of chief financial officer or equivalent position; (ii) reviewed statements; (iii) compiled statements; (iv) internally prepared statements; or (v) tax returns).

Except in the case of a Market Participant or Unrated Market Participant that submits audited financial statements to the ISO, financial statements submitted to the ISO pursuant to this Section II.C.3 shall be accompanied by a written statement from a Senior Officer of the Market Participant or Unrated Market Participant certifying the accuracy of those financial statements. If an attestation was made by an independent accounting firm, then the written statement shall indicate the level of attestation made; if no attestation was made by an independent accounting firm, then no such indication is required.

Notwithstanding any other provision in this subsection, the ISO may require any Market Participant to submit the financial statements and other information described in this subsection. The Market Participant shall provide the requested statements and other information within 10 days of such request. If a Market Participant fails to provide financial statements or other information as requested and the ISO determines that the Market Participant poses an unreasonable risk to the New England Markets, then the ISO may request that the Market Participant provide additional financial assurance in an amount no greater than \$10 million, or take other measures to substantiate the Market Participant's ability to safely transact in the New England Markets (any additional financial assurance provided pursuant to this Section II.C.3 shall not be counted toward satisfaction of the total financial assurance requirements as calculated pursuant to the ISO New England Financial Assurance Policy). If the Market Participant fails to comply with such a request from the ISO, then the ISO may issue a notice of suspension or termination to the Market Participant. If the Market Participant fails to comply with the ISO's request within 5 Business Days from the date of issuance of the notice of suspension or termination, then the ISO may suspend or terminate the Market Participant.

A Market Participant may choose not to submit financial statements as described in this Section II.C.3, in which case the ISO shall use a value of \$0.00 for the Market Participant's total assets and Tangible Net Worth for purposes of the capitalization assessment described in Section II.A.4(a) and such Market Participant's Market Credit Limit and Transmission Credit Limit shall be \$0.00.

A Market Participant may choose to provide additional financial assurance in an amount equal to \$10 million in lieu of providing financial statements under this Section II.C.3.

Such amount shall not be counted toward satisfaction of the total financial assurance requirements as calculated pursuant to the ISO New England Financial Assurance Policy but shall be sufficient to meet the capitalization requirements in Section II.A.4(a)(iii).

D. Market Credit Limits

A credit limit for a Market Participant's Financial Assurance Obligations except FTR Financial Assurance Requirements (a "Market Credit Limit") shall be established for each Market Participant in accordance with this Section II.D.

1. Market Credit Limit for Non-Municipal Market Participants

A "Market Credit Limit" shall be established for each Rated Non-Municipal Market Participant in accordance with subsection (a) below, and a Market Credit Limit shall be established for each Unrated Non-Municipal Market Participant in accordance with subsection (b) below.

a. Market Credit Limit for Rated Non-Municipal Market Participants

As reflected in the following table, the Market Credit Limit of each Rated Non-Municipal Market Participant (other than an FTR-Only Customer) shall at any time be equal to the lesser of: (i) the applicable percentage of such Rated Non-Municipal Market Participant's Tangible Net Worth as listed in the following table, (ii) \$50 million, or (iii) 20 percent (20%) of the total amount due and owing (not including any amounts due under Section 14.1 of the RNA) at such time to the ISO, NEPOOL, the PTOs, the Market Participants and the Non-Market Participant Transmission Customers, by all PTOs, Market Participants and Non-Market Participant Transmission Customers ("TADO").

<u>Investment Grade Rating</u>		<u>Percentage of Tangible Net Worth</u>
S&P/Fitch	Moody's	
AAA	Aaa	5.50%
AA+	Aa1	5.50%
AA	Aa2	4.50%
AA-	Aa3	4.00%
A+	A1	3.05%

A	A2	2.85%
A-	A3	2.60%
BBB+	Baa1	2.30%
BBB	Baa2	1.90%
BBB-	Baa3	1.20%
Below BBB-	Below Baa3	0.00%

An entity's "Tangible Net Worth" for purposes of the ISO New England Financial Assurance Policy on any date is the value, determined in accordance with international accounting standards or generally accepted accounting principles in the United States, of all of that entity's assets less the following: (i) assets the ISO reasonably believes to be restricted or potentially unavailable to settle a claim in the event of a default (e.g., regulatory assets, restricted assets, and Affiliate assets), net of any matching liabilities, to the extent that the result of that netting is a positive value; (ii) derivative assets, net of any matching liabilities, to the extent that the result of that netting is a positive value; (iii) the amount at which the liabilities of the entity would be shown on a balance sheet in accordance with international accounting standards or generally accepted accounting principles in the United States; (iv) preferred stock; (v) non-controlling interest; and (vi) all of that entity's intangible assets (e.g., patents, trademarks, franchises, intellectual property, goodwill and any other assets not having a physical existence), in each case as shown on the most recent financial statements provided by such entity to the ISO.

b. Market Credit Limit for Unrated Non-Municipal Market Participants

The Market Credit Limit of each Unrated Non-Municipal Market Participant that satisfies the Credit Threshold shall at any time be equal to the lesser of: (i) 0.50 percent (0.50% or ½ of 1%) of such Unrated Non-Municipal Market Participant's Tangible Net Worth, (ii) \$25 million or (iii) 20 percent (20%) of TADO. The Market Credit Limit of each Unrated Non-Municipal Market Participant that does not satisfy the Credit Threshold shall be \$0.

2. Market Credit Limit for Municipal Market Participants

The Market Credit Limit for each Credit Qualifying Municipal Market Participant shall be equal to the lesser of (i) 20 percent (20%) of TADO and (ii) \$25 million. The Market Credit Limit for each Non-Qualifying Municipal Market Participant shall be \$0. The sum

of the Market Credit Limits and Transmission Credit Limits of entities that are Affiliates shall not exceed \$50 million.

E. Transmission Credit Limits

A “Transmission Credit Limit” shall be established for each Market Participant in accordance with this Section II.E, which Transmission Credit Limit shall apply in accordance with this Section II.E. A Transmission Credit Limit may not be used to meet FTR Financial Assurance Requirements.

1. Transmission Credit Limit for Rated Non-Municipal Market Participants

The Transmission Credit Limit of each Rated Non-Municipal Market Participant shall at any time be equal to the lesser of: (i) the applicable percentage of such Rated Non-Municipal Market Participant’s Tangible Net Worth as listed in the following table or (ii) \$50 million:

<u>Investment Grade Rating</u>		<u>Percentage of Tangible Net Worth</u>
S&P/Fitch	Moody’s	
AAA	Aaa	5.50%
AA+	Aa1	5.50%
AA	Aa2	4.50%
AA-	Aa3	4.00%
A+	A1	3.05%
A	A2	2.85%
A-	A3	2.60%
BBB+	Baa1	2.30%
BBB	Baa2	1.90%
BBB-	Baa3	1.20%
Below BBB-	Below Baa3	0.00%

2. Transmission Credit Limit for Unrated Non-Municipal Market Participant

The Transmission Credit Limit of each Unrated Non-Municipal Market Participant that satisfies the Credit Threshold shall at any time be equal to the lesser of: (i) 0.50 percent (0.50% or ½ of 1%) of such Unrated Non-Municipal Market Participant’s Tangible Net

Worth or (ii) \$25 million. The Transmission Credit Limit of each Unrated Non-Municipal Market Participant that does not satisfy the Credit Threshold shall be \$0.

3. Transmission Credit Limit for Municipal Market Participants

The Transmission Credit Limit for each Credit Qualifying Municipal Market Participant shall be equal to \$25 million. The Transmission Credit Limit for each Non-Qualifying Municipal Market Participant shall be \$0. The sum of the Market Credit Limits and Transmission Credit Limits of entities that are Affiliates shall not exceed \$50 million.

F. Credit Limits for FTR-Only Customers

The Market Credit Limit and Transmission Credit Limit of each FTR-Only Customer shall be \$0.

G. Total Credit Limit

The sum of a Rated Non-Municipal Market Participant's Market Credit Limit and Transmission Credit Limit shall not exceed \$50 million and the sum of the Market Credit Limits and Transmission Credit Limits of entities that are Affiliates shall not exceed \$50 million. No later than five Business Days prior to the first day of each calendar quarter, and no later than five Business Days after any Affiliate change, each Rated Non-Municipal Market Participant that has a Market Credit Limit and a Transmission Credit Limit shall determine the amounts to be allocated to its Market Credit Limit (up to the limit set forth in Section II.D.1.a above) and its Transmission Credit Limit (up to the limit set forth in Section II.E.1 above) such that the sum of its Market Credit Limit and its Transmission Credit Limit are equal to not more than \$50 million and such that the sum of the Market Credit Limits and Transmission Credit Limits of entities that are Affiliates do not exceed \$50 million and shall provide the ISO with that determination in writing. Each Rated Non-Municipal Market Participant may provide such determination for up to four consecutive calendar quarters. If a Rated Non-Municipal Market Participant does not provide such determination, then the ISO shall use the amounts provided for the previous calendar quarter. If no such determination is provided, then the ISO shall apply an allocation of \$25 million each to the Market Credit Limit and Transmission Credit Limit, which values shall also be used in allocating the \$50 million credit limit among Affiliates. If the sum of the amounts for Affiliates is greater than \$50 million, then the ISO shall reduce the amounts (proportionally to the amounts provided by each Affiliate,

or to the allocation applied by the ISO in the case of an Affiliate that provided no determination) such that the sum is no greater than \$50 million.

III. MARKET PARTICIPANTS' REQUIREMENTS

Each Market Participant that provides the ISO with financial assurance pursuant to this Section III must provide the ISO with financial assurance in one of the forms described in Section X below and in an amount equal to the amount required in order to avoid suspension under Section III.B below (the "Market Participant Financial Assurance Requirement"). A Market Participant's Market Participant Financial Assurance Requirement shall remain in effect as provided herein until the later of (a) 150 days after termination of the Market Participant's membership or (b) the end date of all FTRs awarded to the Market Participant and the final satisfaction of all obligations of the Market Participant providing that financial assurance; provided, however that financial assurances required by the ISO New England Financial Assurance Policy related to potential billing adjustments chargeable to a terminated Market Participant shall remain in effect until such billing adjustment request is finally resolved in accordance with the provisions of the ISO New England Billing Policy. Furthermore and without limiting the generality of the foregoing, (i) any portion of any financial assurance provided under the ISO New England Financial Assurance Policy that relates to a Disputed Amount shall not be terminated or returned prior to the resolution of such dispute, even if the Market Participant providing such financial assurance is terminated or voluntarily terminates its MPSA and otherwise satisfies all of its obligations to the ISO and (ii) the ISO shall not return or permit the termination of any financial assurance provided under the ISO New England Financial Assurance Policy by a Market Participant that has terminated its membership or been terminated to the extent that the ISO determines in its reasonable discretion that that financial assurance will be required under the ISO New England Financial Assurance Policy with respect to an unsettled liability or obligation owing from that Market Participant.

A Market Participant that knows that it is not satisfying its Market Participant Financial Assurance Requirement shall notify the ISO immediately of that fact.

A. Determination of Financial Assurance Obligations

For purposes of the ISO New England Financial Assurance Policy:

- (i) a Market Participant's "Hourly Requirements" at any time will be the sum of (x) the Hourly Charges (excluding Daily FCM Charges) for such Market Participant that have been invoiced but not paid (which amount shall not be less than \$0), plus (y) the Hourly

Charges (excluding Daily FCM Charges) for such Market Participant that have been settled but not invoiced, plus (z) the Hourly Charges (excluding Daily FCM Charges) for such Market Participant that have been cleared but not settled which amount shall be calculated by the Hourly Charges Estimator. The Hourly Charges Estimator (which amount shall not be less than \$0) shall be determined by the following formula:

$$\text{Hourly Charges Estimator} = \sum_{i=t-n+1}^t \text{HC}_i \times \text{LMP ratio} \times 1.15$$

Where:

- t = The last day that such Market Participant's Hourly Charges (excluding Daily FCM Charges) are fully settled;
- n = The number of days that such Market Participant's Day-Ahead Energy has been cleared but not settled;
- HC = The Hourly Charges (excluding Daily FCM Charges) for such Market Participant for a fully settled day; and
- LMP ratio = The average Day-Ahead Prices at the New England Hub over the period of cleared but not settled n days divided by the average Day-Ahead Prices at the New England Hub over the period of most recent fully settled n days. For purposes of this Section III.A.(i), the "New England Hub" shall mean the Hub located in Western and Central Massachusetts referred to as .H.INTERNAL_HUB;

- (ii) A Market Participant's "Daily FCM Requirements" at any time will be the sum of (x) the Daily FCM Charges that have been invoiced but not paid (which amount shall not be less than \$0), plus (y) the Daily FCM Charges that have been settled but not invoiced, plus (z) the Daily FCM Charges for such Market Participant that have been incurred but not settled which amount shall be calculated by the Daily FCM Obligation Estimator. The Daily FCM Obligation Estimator (which amount shall not be less than \$0) shall be determined by the following formula:

$$\text{Daily FCM Obligation Estimator} = \text{MAX}(\text{FCM_Daily_Credit_CM} \times \text{NDAY_CM} + \text{FCM_Daily_Credit_PM} \times \text{NDAY_PM} + \text{FCM_Charge_LD} \times \text{NDAY_P2} \times \text{FCA_Price_Ratio}, 0)$$

Where:

FCM_Daily_Credit_CM is the portion of the Daily FCM Charges that corresponds to Capacity Supply Obligations for the Market Participant in the current month;

FCM_Daily_Credit_PM is the portion of the Daily FCM Charges that corresponds to Capacity Supply Obligations for the Market Participant in the month preceding the current month;

NDAY_CM is the number of days in the current month within the period from the last day the Daily FCM Charges have been settled to the current day (when financial assurance is assessed);

NDAY_PM is the number of days in the month preceding the current month within the period from the last day of the Daily FCM Charges have been settled to the current day (when financial assurance is assessed);

FCM_Charge_LD is the portion of the Daily FCM Charges that corresponds to Capacity Load Obligations for the Market Participant from the last day the Daily FCM Charges have been settled; and

NDAY_P2 is the number of days from the last day the Daily FCM Charges have been settled to the current day (when financial assurance is assessed) plus 2.

The FCA_Price_Ratio shall be calculated as the weighted average of the Capacity Clearing Prices for the Rest-of-Pool Capacity Zone for the relevant Capacity Commitment Periods divided by the Capacity Clearing Price for the Rest-of-Pool Capacity Zone corresponding to the Capacity Commitment Period that contains the last day the Daily FCM Charges have been settled, as determined by the following formula:

$$\text{FCA_Price_Ratio} = (((\text{Clearing Price_CCP}_n \times \text{NDAY_P2_CCP}_n) + (\text{Clearing Price_CCP}_{n+1} \times \text{NDAY_P2_CCP}_{n+1})) / \text{NDAY_P2}) / (\text{Clearing Price_CCP}_n)$$

Where:

Clearing Price_CCP_n is the Capacity Clearing Price for the Rest-of-Pool Capacity Zone corresponding to the Capacity Commitment Period that contains the last day that the Daily FCM Charges have been settled;

Clearing Price_CCP_{n+1} is the Capacity Clearing Price for the Rest-of-Pool Capacity Zone for the Capacity Commitment Period following CCP_n;

NDAY_P2_CCP_n is number of days in the CCP_n within NDAY_P2; and

NDAY_P2_CCP_{n+1} is number of days in the CCP_{n+1} within NDAY_P2.

- (iii) a Market Participant's "Non-Hourly Requirements" at any time will be determined by averaging that Market Participant's Non-Hourly Charges but not include: (A) the amount due from or to such Market Participant for FTR transactions, (B) any amounts due from such Market Participant for the Forward Capacity Market, (C) any amounts due under Section 14.1 of the RNA, (D) any amounts due for NEPOOL GIS API Fees, and (E) the amount of any Qualification Process Cost Reimbursement Deposit (including the annual true-up of that amount) due from such Market Participant) over the two most recently invoiced calendar months; provided that such Non-Hourly Requirements shall in no event be less than zero;
- (iv) a Market Participant's "Transmission Requirements" at any time will be determined by averaging that Market Participant's Transmission Charges over the two most recently invoiced calendar months; provided that such Transmission Requirements shall in no event be less than \$0;
- (v) a Market Participant's Virtual Requirements at any time will equal the amount of all unsettled Increment Offers and Decrement Bids submitted by such Market Participant at such time (which amount of unsettled Increment Offers and Decrement Bids will be calculated by the ISO according to a methodology approved from time to time by the NEPOOL Budget and Finance Subcommittee and posted on the ISO's website);
- (vi) a Market Participant's "Financial Assurance Obligations" at any time will be equal to the sum at such time of:
 - a. such Market Participant's Hourly Requirements; plus
 - b. such Market Participant's Daily FCM Requirements; plus
 - c. such Market Participant's Virtual Requirements; plus
 - d. such Market Participant's Non-Hourly Requirements times 2.50 (subject to Section X.D with respect to Provisional Members); plus
 - e. such Market Participant's "FTR Financial Assurance Requirements" under Section VI below; plus
 - f. such Market Participant's "FCM Financial Assurance Requirements" under Section VII below; plus

- g. such Market Participant's "IEP Financial Assurance Requirement" under Section III.D below; plus
 - h. the amount of any Disputed Amounts received by such Market Participant; and
- (vii) a Market Participant's "Transmission Obligations" at any time will be such Market Participant's Transmission Requirements times 2.50.

To the extent that the calculations of the components of a Market Participant's Financial Assurance Obligations (excluding FTR Financial Assurance Requirements) as described above produce positive and negative values, such components may offset each other; provided, however, that a Market Participant's Financial Assurance Obligations shall never be less than zero.

B. Credit Test Calculations and Allocation of Financial Assurance, Notice and Suspension from the New England Markets

1. Credit Test Calculations and Allocation of Financial Assurance

The financial assurance provided by a Market Participant shall be applied as described in this Section.

- (a) "Market Credit Test Percentage" is equal to a Market Participant's Financial Assurance Obligations (excluding FTR Financial Assurance Requirements) divided by the sum of its Market Credit Limit and any financial assurance allocated as described in subsection (d) below.
- (b) "FTR Credit Test Percentage" is equal to a Market Participant's FTR Financial Assurance Requirements divided by any financial assurance allocated as described in subsection (d) below.
- (c) "Transmission Credit Test Percentage" is equal to a Market Participant's Transmission Obligations divided by the sum of its Transmission Credit Limit and any financial assurance allocated as described in subsection (d) below.
- (d) A Market Participant's financial assurance shall be allocated as follows:
 - (i) financial assurance shall be first allocated so as to ensure that the Market Participant's Market Credit Test Percentage is no greater than 100%;
 - (ii) any financial assurance that remains after the allocation described in subsection (d) (i) shall be allocated so as to ensure that the Market Participant's FTR Credit Test Percentage is no greater than 100%;

- (iii) any financial assurance that remains after the allocation described in subsection (d) (ii) shall be allocated so as to ensure that the Market Participant's Transmission Credit Test Percentage is no greater than 100%;
- (iv) if any financial assurance remains after the allocations described in subsection (d) (iii), then that remaining financial assurance shall be allocated by repeating the steps described in subsections (d) (i), (d) (ii), and (d) (iii) to ensure that the respective test percentages are no greater than 89.99%;
- (v) if any financial assurance remains after the allocation described in subsection (d) (iv), then that remaining financial assurance shall be allocated by repeating the steps described in subsections (d) (i), (d) (ii), and (d) (iii) to ensure that the respective test percentages are no greater than 79.99%;
- (vi) any financial assurance that remains after the allocations described in subsection (d) (v) shall be allocated to the Market Credit Test Percentage.

2. Notices

a. 80 Percent Test

When a Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, or Transmission Credit Test Percentage equals or exceeds 80 percent (80%), the ISO shall issue notice thereof to such Market Participant.

b. 90 Percent Test

When a Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage or Transmission Credit Test Percentage equals or exceeds 90 percent (90%) , then, in addition to the actions to be taken when the Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, or Transmission Credit Test Percentage equals or exceeds 80 percent (80%), the ISO shall issue notice thereof to such Market Participant. The ISO shall also issue a 90 percent (90%) notice to a Market Participant and take certain other actions under the circumstances described in Section III.B.2.c below.

c. 100 Percent Test

When a Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, or Transmission Credit Test Percentage exceeds 100 percent (100%) or when the sum of the financial assurance and credit limits of a Market Participant that has financial assurance requirements equal zero, then, in addition to the actions to be taken when the

Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, or Transmission Credit Test Percentage equals or exceeds 80 percent (80%) and 90 percent (90%), (i) the ISO shall issue notice thereof to such Market Participant, (ii) that Market Participant shall be immediately suspended from submitting Increment Offers and Decrement Bids until such time when its Market Credit Test Percentage, FTR Credit Test Percentage, and Transmission Credit Test Percentage are less than or equal to 100 percent (100%), and (iii) if sufficient financial assurance to lower the Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, and Transmission Credit Test Percentage to less than or equal to 100 percent (100%) or, in the case of a Market Participant that has received one to five notices that its Market Credit Test Percentage, FTR Credit Test Percentage, or Transmission Credit Test Percentage exceeds 100 percent (100%) in the previous 365 days (not including the instant notice), sufficient financial assurance to lower such Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, and Transmission Credit Test Percentage to less than or equal to 90 percent (90%), is not provided by 8:30 a.m. Eastern Time on the next Business Day, (a) the event shall be a Financial Assurance Default; (b) the ISO shall issue notice thereof to such Market Participant, to the NEPOOL Budget and Finance Subcommittee, to all members and alternates of the Participants Committee, to the New England governors and utility regulatory agencies and to the billing and credit contacts for all Market Participants, and (c) such Market Participant shall be suspended from: (1) the New England Markets, as provided below; (2) receiving transmission service under any existing or pending arrangements under the Tariff or scheduling any future transmission service under the Tariff; (3) voting on matters before the Participants Committee and NEPOOL Technical Committees; (4) entering into any future transactions in the FTR system; and (5) submitting an offer of Non-Commercial Capacity in any Forward Capacity Auction or any reconfiguration auction in the Forward Capacity Market, in each case until such Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, and Transmission Credit Test Percentage are at 100 percent (100%) or less. In addition to all of the provisions above, any Market Participant that has received six or more notices in the previous 365 days that its Market Credit Test Percentage, FTR Credit Test Percentage, or Transmission Credit Test Percentage has exceeded 100 percent (100%) shall receive a notice thereof and shall be required to maintain sufficient financial assurance to keep such Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, and Transmission Credit Test Percentage at less than or equal to 90

percent (90%). If such Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage or Transmission Credit Test Percentage exceeds 90 percent (90%), the ISO shall issue a notice thereof to such Market Participant. If sufficient financial assurance to lower such Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, and Transmission Credit Test Percentage to less than or equal to 90 percent (90%) is not provided by 8:30 a.m. Eastern Time on the next Business Day, then the consequences described in subsections (a), (b) and (c) of Section III.B.2.c (iii) above shall apply until such Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, and Transmission Credit Test Percentage are at 90 percent (90%) or less.

However, when a Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, or Transmission Credit Test Percentage exceeds 100 percent (100%) or 90 percent (90%), as applicable under this Section III.B.2.c, solely because its Investment Grade Rating is downgraded by one grade and the resulting grade is BBB-/Baa3 or higher, then (x) for five Business Days after such downgrade, such downgrade shall not by itself cause a change to such Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, and Transmission Credit Test Percentage and (y) no notice shall be sent and none of the other actions described in this Section III.B shall occur with respect to such downgrade if such Market Participant cures such default within such five Business Day period. When a Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, or Transmission Credit Test Percentage exceeds 100 percent solely because a letter of credit is valued at \$0 prior to the termination of that letter of credit, as described in Section X.B, then the ISO, in its sole discretion, may determine that: (x) for five Business Days after such change in the valuation of the letter of credit, such valuation shall not by itself cause a change to such Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, and Transmission Credit Test Percentage; and/or (y) no notice shall be sent and none of the other actions described in this Section III.B shall occur with respect to such valuation if such Market Participant cures such default within such five Business Day period.

Notwithstanding the foregoing, a Market Participant shall neither (x) receive a notice that its Market Credit Test Percentage, FTR Credit Test Percentage, or Transmission Credit Test Percentage exceeds 100 percent (100%) nor (y) be suspended under this Section

III.B if (i) the amount of financial assurance necessary for that Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, and Transmission Credit Test Percentage to get to 100 percent (100%) or lower is less than \$1,000 or (ii) that Market Participant's status with the ISO has been terminated.

3. Suspension from the New England Markets

a. General

The suspension of a Market Participant, and any resulting annulment, termination or removal of OASIS reservations, removal from the settlement system and the FTR system, suspension of the ability to offer Non-Commercial Capacity or participate in a substitution auction in the Forward Capacity Market, drawing down of financial assurance, rejection of Increment Offers and Decrement Bids, and rejection of bilateral transactions submitted to the ISO, shall not limit, in any way, the ISO's right to invoice or collect payment for any amounts owed (whether such amounts are due or becoming due) by such suspended Market Participant under the Tariff or the ISO's right to administratively submit a bid or offer of a Market Participant's Non-Commercial Capacity in any Forward Capacity Auction or any reconfiguration auction or to make other adjustments under Market Rule 1.

In addition to the notices provided herein, the ISO will provide any additional information required under the ISO New England Information Policy.

Each notice issued by the ISO pursuant to this Section III.B shall indicate whether the subject Market Participant has a registered load asset. If the ISO has issued a notice pursuant to this Section III.B and subsequently the subject Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, and Transmission Credit Test Percentage are equal to or less than 100 percent (100%), such Market Participant may request the ISO to issue a notice stating such fact. However, the ISO shall not be obligated to issue such a notice unless, in its sole discretion, the ISO concludes that such Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, and Transmission Credit Test Percentage are equal to or less than 100 percent (100%).

Notwithstanding the foregoing, if a Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, or Transmission Credit Test Percentage equals or exceeds 90 percent (90%) as a result of one or more Increment Offers or Decrement Bids submitted by that Market Participant, or as a result of the submission to the ISO of one or more bilateral transactions to which the Market Participant is a party, and, but for such Increment Offers and/or Decrement Bids or such bilateral transactions, such Market Participant would be in compliance with the ISO New England Financial Assurance Policy, a notice will not be issued.

If a Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, or Transmission Credit Test Percentage exceeds 100 percent (100%) as a result of one or more Increment Offers or Decrement Bids submitted by that Market Participant, or as a result of the submission to the ISO of one or more bilateral transactions to which the Market Participant is a party, and, but for such Increment Offers and/or Decrement Bids or such bilateral transactions, such Market Participant would be in compliance with the ISO New England Financial Assurance Policy, a notice will be issued only to such Market Participant, and such Market Participant shall be "suspended" as described below.

Any such suspension as a result of one or more Increment Offers or Decrement Bids submitted by a Market Participant, or as a result of the submission to the ISO of one or more bilateral transactions to which the Market Participant is a party, shall take effect immediately upon submission of such Increment Offers and/or Decrement Bids or such bilateral transactions to remain in effect until such Market Participant is in compliance with the ISO New England Financial Assurance Policy, notwithstanding any provision of this Section III.B to the contrary.

If a Market Participant is suspended from the New England Markets in accordance with the provisions of the ISO New England Financial Assurance Policy or the ISO New England Billing Policy, then the provisions of this Section III.B shall control notwithstanding any other provision of the Tariff to the contrary. A suspended Market Participant shall have no ability so long as it is suspended (i) to be reflected in the ISO's settlement system, including any bilateral transactions, as either a purchaser or a seller of any products or services sold through the New England Markets (other than (A) Commercial Capacity and (B) Non-Commercial Capacity during the Non-Commercial

Capacity Cure Period) that cause such suspended Market Participant to incur a financial obligation in the ISO's settlement system or any liability to the ISO, NEPOOL, or the Market Participants, (ii) to submit Demand Bids, Decrement Bids or Increment Offers in the New England Markets, (iii) to submit offers for Non-Commercial Capacity in any Forward Capacity Auction or reconfiguration auction or acquire Non-Commercial Capacity through a Capacity Supply Obligation Bilateral, or (iv) to submit supply offers or demand bids in any Forward Capacity Market substitution auction. Any transactions, including bilateral transactions with a suspended Market Participant (other than transactions for (A) Commercial Capacity and (B) Non-Commercial Capacity during the Non-Commercial Capacity Cure Period) that cause such suspended Market Participant to incur a financial obligation in the ISO's settlement system or any liability to the ISO, NEPOOL, or the other Market Participants and any Demand Bids, Decrement Bids, Increment Offers, and Export Transactions submitted by a suspended Market Participant shall be deemed to be terminated for purposes of the Day-Ahead Energy Market clearing and the ISO's settlement system. If a Market Participant has provided the financial assurance required for a Capacity Supply Obligation Bilateral or Annual Reconfiguration Transaction, then that Capacity Supply Obligation Bilateral or Annual Reconfiguration Transaction, respectively, will not be deemed to be terminated when that Market Participant is suspended.

b. Load Assets

Any load asset registered to a suspended Market Participant shall be terminated, and the obligation to serve the load associated with such load asset shall be assigned to the relevant unmetered load asset(s) unless and until the host Market Participant for such load assigns the obligation to serve such load to another asset. If the suspended Market Participant is responsible for serving an unmetered load asset, such suspended Market Participant shall retain the obligation to serve such unmetered load asset. If a suspended Market Participant has an ownership share of a load asset, such ownership share shall revert to the Market Participant that assigned such ownership share to such suspended Market Participant. If a suspended Market Participant has the obligation under the Tariff or otherwise to offer any of its supply or to bid any pumping load to provide products or services sold through the New England Markets, that obligation shall continue, but only in Real-Time, notwithstanding the Market Participant's suspension, and such offer or bid, if cleared under the Tariff, shall be effective.

c. FTRs

If a Market Participant is suspended from entering into future transactions in the FTR system, such Market Participant shall retain all FTRs held by it but shall be prohibited from acquiring any additional FTRs during the course of its suspension. It is intended that any suspension under the ISO New England Financial Assurance Policy or the ISO New England Billing Policy will occur promptly, and the definitive timing of any such suspension shall be determined by the ISO from time to time as reported to the NEPOOL Budget and Finance Subcommittee, and shall be posted on the ISO website.

d. Virtual Transactions

Notwithstanding the foregoing, if a Market Participant is suspended in accordance with the provisions of the ISO New England Financial Assurance Policy as a result of one or more Increment Offers or Decrement Bids submitted by that Market Participant and, but for such Increment Offers and/or Decrement Bids, such Market Participant would be in compliance with the ISO New England Financial Assurance Policy, then such suspension shall be limited to (i) the immediate “last in, first out” rejection of pending individual uncleared Increment Offers and Decrement Bids submitted by that Market Participant (it being understood that Increment Offers and Decrement Bids are batched by the ISO in accordance with the time, and that Increment Offers and Decrement Bids will be rejected by the batch); and (ii) the suspension of that Market Participant’s ability to submit additional Increment Offers and Decrement Bids unless and until it has complied with the ISO New England Financial Assurance Policy, and the determination of compliance for these purposes will take into account the level of aggregate outstanding obligations of that Market Participant after giving effect to the immediate rejection of that Market Participant’s Increment Offers and Decrement Bids described in clause (i).

e. Bilateral Transactions

If the sum of the financial assurance and credit limits of a Market Participant that has financial assurance requirements equals zero and that Market Participant would be in compliance with the ISO New England Financial Assurance Policy but for the submission of bilateral transactions to the ISO to which the Market Participant is a party, or if a Market Participant’s Market Credit Test Percentage, FTR Credit Test Percentage, or Transmission Credit Test Percentage exceeds 100 percent as a result of one or more bilateral transactions submitted to the ISO to which the Market Participant is a party, then the consequences described in subsection (a) above shall be limited to: (i) rejection of any pending bilateral transactions to which a Market Participant is a party that cause the Market Participant to incur a financial obligation in the ISO’s settlement system or any

liability to the ISO, NEPOOL, or the Market Participants, such that the aggregate value of the pending bilateral transactions submitted by all Market Participants is maximized (recognizing the downstream effect that rejection of a bilateral transaction may have on the Market Credit Test Percentages, FTR Credit Test Percentages, or Transmission Credit Test Percentages of other Market Participants), while ensuring that the financial assurance requirements of each Market Participant are satisfied; and (ii) suspension of that Market Participant's ability to submit additional bilateral transactions until it has complied with the ISO New England Financial Assurance Policy (the determination of compliance for these purposes will take into account the level of aggregate outstanding obligations of the Market Participant after giving effect to the immediate rejection of the bilateral transactions to which the Market Participant is a party as described in clause (i) above). In the case of a bilateral transaction associated with the Day-Ahead Energy Market, the ISO will provide notice to a Market Participant that would be in default of the ISO New England Financial Assurance Policy as a result of the bilateral transaction, and the consequences described in clauses (i) and (ii) above shall only apply if the Market Participant fails to cure its default by 6:00 p.m. Eastern Time of that same Business Day. In the case of a Capacity Load Obligation Bilateral, the consequences described in clauses (i) and (ii) above shall apply if the Market Participant does not cure its default within one Business Day after notification that a Capacity Load Obligation Bilateral caused the default. Bilateral transactions that transfer Forward Reserve Obligations and Supplemental Availability Bilaterals are not subject to the provisions of this Section III.B.3(e).

4. Serial Notice and Suspension Penalties

If either (x) a Market Participant is suspended from the New England Markets because of a failure to satisfy its Financial Assurance Requirements in accordance with the provisions of the ISO New England Financial Assurance Policy or (y) a Market Participant receives more than five notices that its Market Credit Test Percentage, FTR Credit Test Percentage or Transmission Credit Test Percentage has exceeded 100 percent (100%) in any rolling 365-day period, then such Market Participant shall pay a \$1,000 penalty for such suspension and for each notice after the fifth notice in a rolling 365-day period. If a Market Participant receives a notice that its Market Credit Test Percentage, FTR Credit Test Percentage, or Transmission Credit Test Percentage has exceeded 100 percent (100%) in the same day, then only one of those notices will count towards the

five notice limit. All penalties paid under this paragraph shall be deposited in the Late Payment Account maintained under the ISO New England Billing Policy.

C. Additional Financial Assurance Requirements for Certain Municipal Market Participants

Notwithstanding the other provisions of the ISO New England Financial Assurance Policy and in addition to the other obligations hereunder, a Credit Qualifying Municipal Market Participant that is not a municipality (which, for purposes of this Section III.C, does not include an agency or subdivision of a municipality) must provide additional financial assurance in one of the forms described in Section X below in an amount equal to its FCM Financial Assurance Requirements at the time of calculation, unless either: (1) that Credit Qualifying Municipal Market Participant has a corporate Investment Grade Rating from one or more of the Rating Agencies; or (2) that Credit Qualifying Municipal Market Participant has an Investment Grade Rating from one or more of the Rating Agencies for all of its rated indebtedness; or (3) that Credit Qualifying Municipal Market Participant provides the ISO with an opinion of counsel that is acceptable to the ISO confirming that amounts due to the ISO under the Tariff have priority over, or have equal priority with, payments due on the debt on which the Credit Qualifying Municipal Market Participant's Investment Grade Rating is based. Each legal opinion provided under clause (3) of this Section III.C will be updated no sooner than 60 days and no later than 30 days before each reconfiguration auction that precedes a Capacity Commitment Period to which such legal opinion relates, and if that update is not provided or that update is not acceptable to the ISO, the applicable Credit Qualifying Municipal Market Participant must either satisfy one of the other clauses of this Section III.C or provide additional financial assurance in one of the forms described in Section X below in an amount equal to its FCM Financial Assurance Requirements at the time of calculation.

D. Inventoried Energy Program Financial Assurance Requirement

Notwithstanding the other provisions of the ISO New England Financial Assurance Policy and in addition to the other obligations hereunder, if any Market Participant has submitted a Forward Energy Inventory Election approved by the ISO under Section III.K.1.1 of the Tariff, such Market Participant shall be subject to the additional financial assurance requirements of this section. Any such Market Participant must provide additional financial assurance in one of the forms described in Section X below in an

amount equal to the Inventoried Energy Program Financial Assurance Requirement on or before December 1 of each program year. The Inventoried Energy Program Financial Assurance Requirement will be calculated on a daily basis for each program year, from December 1, 2023 through February 29, 2024 and separately from December 1, 2024 through February 28, 2025, as follows:

$$\text{IEP Financial Assurance Requirement} = \text{MAX}(0, \text{FE_MWh} - \text{Q_MWh}) * \text{D_95} * \text{MF} * \text{SPR}$$

Where:

FE_MWh = is the amount of Forward Energy Inventory elected by the Market Participant;

Q_MWh = is the maximum observed physical inventory over the prior 15 days;

D_95 = is the 95th percentile of observed Inventoried Energy Days, which for the 2023-2024 and 2024-2025 program years shall be 19;

MF = is the month factor, which shall be 100% for December, 87% for January, and 26% for February; and

SPR = spot payment rate = the \$/MWh rate used in the calculation of Inventoried Energy Spot Payments as described in Section III.K.3.2 of the Tariff.

IV. CERTAIN NEW AND RETURNING MARKET PARTICIPANTS REQUIREMENTS

A new Market Participant or a Market Participant other than an FTR-Only Customer, or a Governance Only Member whose previous membership as a Market Participant was involuntarily terminated due to a Financial Assurance Default or a payment default and, since returning, has been a Market Participant for less than six consecutive months (a “Returning Market Participant”) is required to provide the ISO, for three months in the case of a new Market Participant and six months in the case of a Returning Market Participant, financial assurance in one of the forms described in Section X below equal to any amount of additional financial assurance required to meet the capitalization requirements described in Section II.A.4 plus the greater of (a) its Financial Assurance Requirement or (b) its “Initial Market Participant Financial Assurance Requirement.” A new Market Participant’s or a Returning Market Participant’s Initial Market Participant Financial Assurance Requirement must be provided to the ISO no later than one Business Day before commencing activity in the New England Markets or commencing transmission service under the Tariff, and shall be determined by the following formula:

$$FAR = G + T + L + E$$

Where FAR is the Initial Market Participant Financial Assurance Requirement and G, T, L and E are determined by the following formulas:

$$G = (MW_g \times Hr_{DA} \times D \times 3.25) + (MW_g \times Hr_{MIS} \times S_2 \times 3.25);$$

Where:

$MW_g =$	Total nameplate capacity of the Market Participant's generation units that have achieved commercial operation;
$Hr_{DA} =$	The number of hours of generation that any such generation unit could be bid in the Day-Ahead Energy Market before it could be removed if such unit tripped, as determined by the ISO in its sole discretion;
$D =$	The maximum observed differential between Energy prices in the Day-Ahead and Real-Time Energy Markets during the prior calendar year ("Maximum Energy Price Differential"), as determined by the ISO in its sole discretion;
$Hr_{MIS} =$	The standard number of hours between generation and the issuance of initial Market Information Server ("MIS") settlement reports including projected generation activity for such units, as determined by the ISO in its sole discretion; and
$S_2 =$	The per MW amount assessed pursuant to Schedule 2 of Section IV.A of this Tariff, as determined by the ISO.
$T =$	$MW_t \times Hr_{MIS} \times (D + S_{2-3}) \times 3.25;$

Where: MW_t = Number of MWs to be traded in the New England Markets as reasonably projected by the new Market Participant or the Returning Market Participant;

Hr_{MIS} = The standard number of hours between generation and the issuance of initial MIS settlement reports including projected generation activity, as determined by the ISO in its sole discretion;

D = Maximum Energy Price Differential; and

S_{2-3} = The per MWh amount assessed pursuant to Schedules 2 and 3 of Section IV.A of the Tariff, as determined annually by the ISO.

$$L = (MW_1 \times LF \times Hr_{MIS} \times (EP + S_{2-3}) \times 3.25) + (MW_1 \times Hr_{MIS} \times TC \times 3.25)$$

Where:

MW_1 = MWs of Real-Time Load Obligation (as defined in Market Rule 1) of the new Market Participant or Returning Market Participant;

LF = Average load factor in New England, as determined annually by the ISO in its sole discretion;

Hr_{MIS} = The standard number of hours between generation and the issuance of initial MIS settlement reports including projected generation activity, as determined by the ISO in its sole discretion;

EP = The average price of Energy in the Day-Ahead Energy Market for the most recent calendar year for which information is available from the Annual Reports published by the ISO, as determined by the ISO in its sole discretion;

S_{2-3} = The per MW amount assessed pursuant to Schedules 2 and 3 of Section IV.A of the Tariff, as determined annually by the ISO; and

TC = The hourly transmission charges per MW_1 assessed under the Tariff (other than Schedules 1, 8 and 9 of Section II of the Tariff), as determined annually by the ISO.

$$E = (SE) \times 3.25$$

Where:

SE = Average monthly share of Participant Expenses for the applicable Sector.

If a new Market Participant's or a Returning Market Participant's Initial Market Participant Financial Assurance Requirement during the time period that it is subject to this Section IV is 80 percent or more of the available amount of the financial assurance provided by that new Market Participant or Returning Market Participant, it shall have the same effect as if such Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, or Transmission Credit Test Percentage equaled or exceeded 80 percent (80%) under Section III.B above.

If a new Market Participant's or a Returning Market Participant's Initial Market Participant Financial Assurance Requirement during the time period that it is subject to this Section IV is 90 percent or more of the available amount of the financial assurance provided by that new Market Participant or Returning Market Participant, it shall have the same effect as if such Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, or Transmission Credit Test Percentage equaled or exceeded 90 percent (90%) under Section III.B above.

If a new Market Participant's or a Returning Market Participant's Initial Market Participant Financial Assurance Requirement during the time period that it is subject to this Section IV exceeds 100 percent of the available amount of the financial assurance provided by that new Market Participant or Returning Market Participant, it shall have the same effect as if such Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, or Transmission Credit Test Percentage exceeded 100 percent (100%) under Section III.B above.

V. NON-MARKET PARTICIPANT TRANSMISSION CUSTOMERS REQUIREMENTS

A. Ongoing Financial Review and Credit Ratings

1. Rated Non-Market Participant Transmission Customer and Transmission Customers

Each Rated Non-Market Participant Transmission Customer that does not currently have an Investment Grade Rating must provide an appropriate form of financial assurance as described in Section X below.

2. Unrated Non-Market Participant Transmission Customers

Any Unrated Non-Market Participant Transmission Customer that (i) has defaulted on any of its obligations under the Tariff (including without limitation its obligations hereunder and under the ISO New England Billing Policy) during the immediately preceding 365-day period; or (ii) does not have a Current Ratio of at least 1.0, a Debt-to-Total Capitalization Ratio of 0.6 or less, and an EBITDA-to-Interest Expense Ratio of at least 2.0 must provide an appropriate form of financial assurance as described in Section X below. An Unrated Non-Market Participant Transmission Customer that does not meet either of the conditions described in clauses (i) and (ii) of this paragraph is referred to herein as satisfying the “NMPTC Credit Threshold.”

B. NMPTC Credit Limits

1. NMPTC Market Credit Limit

A Market Credit Limit shall be established for each Non-Market Participant Transmission Customer as set forth in this Section V.B.1.

The Market Credit Limit of each Rated Non-Market Participant Transmission Customer shall at any time be equal to the least of: (i) the applicable percentage of such Rated Non-Market Participant Transmission Customer’s Tangible Net Worth (as reflected in the following table); (ii) \$50 million; or (iii) 20 percent (20%) of TADO:

<u>Investment Grade Rating</u>		<u>Percentage of Tangible Net Worth</u>
S&P/Fitch	Moody’s	
AAA	Aaa	5.50%
AA+	Aa1	5.50%
AA	Aa2	4.50%
AA-	Aa3	4.00%
A+	A1	3.05%

A	A2	2.85%
A-	A3	2.60%
BBB+	Baa1	2.30%
BBB	Baa2	1.90%
BBB-	Baa3	1.20%
Below BBB-	Below Baa3	0.00%

The Market Credit Limit of each Unrated Non-Market Participant Transmission Customer that satisfies the NMPTC Credit Threshold shall at any time be equal to the least of: (i) 0.50 percent (0.50% or ½ of 1%) of such Unrated Non-Market Participant Transmission Customer's Tangible Net Worth, (ii) \$25 million or (iii) 20 percent (20%) of TADO. The Market Credit Limit of each Unrated Non-Market Participant Transmission Customer that does not satisfy the NMPTC Credit Threshold shall be \$0.

2. NMPTC Transmission Credit Limit

A Transmission Credit Limit shall be established for each Non-Market Participant Transmission Customer in accordance with this Section V.B.2.

The Transmission Credit Limit of each Rated Non-Market Participant Transmission Customer shall at any time be equal to the lesser of: (i) the applicable percentage of such Rated Non-Market Participant Transmission Customer's Tangible Net Worth as listed in the following table or (ii) \$50 million:

<u>Investment Grade Rating</u>		<u>Percentage of Tangible Net Worth</u>
S&P/Fitch	Moody's	
AAA	Aaa	5.50%
AA+	Aa1	5.50%
AA	Aa2	4.50%
AA-	Aa3	4.00%
A+	A1	3.05%
A	A2	2.85%
A-	A3	2.60%
BBB+	Baa1	2.30%
BBB	Baa2	1.90%

BBB-	Baa3	1.20%
Below BBB-	Below Baa3	0.00%

The Transmission Credit Limit of each Unrated Non-Market Participant Transmission Customer that satisfies the NMPTC Credit Threshold shall at any time be equal to the lesser of: (i) 0.50 percent (0.50% or ½ of 1%) of such Unrated Non-Market Participant Transmission Customer's Tangible Net Worth or (ii) \$25 million. The Transmission Credit Limit of each Unrated Non-Market Participant Transmission Customer that does not satisfy the NMPTC Credit Threshold shall be \$0.

3. NMPTC Total Credit Limit

The sum of a Non-Market Participant Transmission Customer's Market Credit Limit and Transmission Credit Limit shall not exceed \$50 million and the sum of the Market Credit Limits and Transmission Credit Limits of entities that are Affiliates shall not exceed \$50 million. No later than five Business Days prior to the first day of each calendar quarter, and no later than five Business Days after any Affiliate change, each Rated Non-Market Participant Transmission Customer that has a Market Credit Limit and a Transmission Credit Limit shall determine the amounts to be allocated to its Market Credit Limit (up to the amount set forth in Section V.B.1 above) and its Transmission Credit Limit (up to the amount set forth in Section V.B.2 above) such that the sum of its Market Credit Limit and its Transmission Credit Limit are equal to not more than \$50 million and such that the sum of the Market Credit Limits and Transmission Credit Limits of entities that are Affiliates do not exceed \$50 million and shall provide the ISO with that determination in writing. Each Rated Non-Market Participant Transmission Customer may provide such determination for up to four consecutive calendar quarters. If a Rated Non-Market Participant Transmission Customer does not provide such determination, then the ISO shall use the amounts provided for the previous calendar quarter. If no such determination is provided, then the ISO shall apply an allocation of \$25 million each to the Market Credit Limit and Transmission Credit Limit, which values shall also be used in allocating the \$50 million credit limit among Affiliates. If the sum of the amounts for Affiliates is greater than \$50 million, then the ISO shall reduce the amounts (proportionally to the amounts provided by each Affiliate, or to the allocation applied by the ISO in the case of an Affiliate that provided no determination) such that the sum is no greater than \$50 million.

C. Information Reporting Requirements for Non-Market Participant Transmission Customers

Each Rated Non-Market Participant Transmission Customer having a Market Credit Limit or Transmission Credit Limit greater than zero or meeting the capitalization requirements by maintaining a minimum Tangible Net Worth or minimum total assets as described in Section II.A.4(a) shall submit to the ISO, on a quarterly basis, within 10 days of their becoming available and within 65 days after the end of the applicable fiscal quarter of such Rated Non-Market Participant Transmission Customer, its balance sheet, which shall show sufficient detail for the ISO to assess the Rated Non-Market Participant Transmission Customer's Tangible Net Worth. In addition, each Rated Non-Market Participant Transmission Customer that has an Investment Grade Rating having a Market Credit Limit or Transmission Credit Limit greater than zero or meeting the capitalization requirements by maintaining a minimum Tangible Net Worth or minimum total assets as described in Section II.A.4(a) shall submit to the ISO, annually within 10 days of their becoming available and within 120 days after the end of the fiscal year of such Rated Non-Market Participant Transmission Customer, balance sheets and income statements (balance sheets and income statements that are part of audited financial statements shall be submitted if available; if such balance sheets and income statements are not available, then another alternative form of financial statements accepted by the ISO as described below may be submitted). If any of this financial information is available on the internet, the Rated Non-Market Participant Transmission Customer may provide instead a letter to the ISO stating where such information may be located and retrieved.

Each Unrated Non-Market Participant Transmission Customer having a Market Credit Limit or Transmission Credit Limit greater than zero or meeting the capitalization requirements by maintaining a minimum Tangible Net Worth or minimum total assets as described in Section II.A.4(a) shall submit to the ISO, on a quarterly basis, within 10 days of their becoming available and within 65 days after the end of the applicable fiscal quarter of such Unrated Non-Market Participant Transmission Customer, its balance sheet, which shall show sufficient detail for the ISO to assess the Unrated Non-Market Participant Transmission Customer's Tangible Net Worth. Unrated Non-Market Participant Transmission Customers having a Market Credit Limit or Transmission Credit Limit greater than \$0 shall also provide additional financial statements, which shall show

sufficient detail for the ISO to calculate such Unrated Non-Market Participant Transmission Customer's Current Ratio, Debt-to-Total Capitalization Ratio and EBITDA-to-Interest Expense Ratio. In addition, each such Unrated Non-Market Participant Transmission Customer that satisfies the Credit Threshold and has a Market Credit Limit or Transmission Credit Limit of greater than \$0 or meeting the capitalization requirements by maintaining a minimum Tangible Net Worth or minimum total assets as described in Section II.A.4(a) shall submit to the ISO, annually within 10 days of becoming available and within 120 days after the end of the fiscal year of such Unrated Non-Market Participant Transmission Customer balance sheets and income statements (balance sheets and income statements that are part of audited financial statements shall be submitted if available; if such balance sheets and income statements are not available, then another alternative form of financial statements accepted by the ISO as described below may be submitted). Where any of the above financial information is available on the internet, the Unrated Non-Market Participant Transmission Customer may provide the ISO with a letter stating where such information may be located and retrieved.

If any of the information or documentation required by this section is not available, alternate requirements may be specified by the ISO (such alternate requirements may include, but are not limited to: (i) consolidating statements or other financial statements (in the case of a stand-alone subsidiary) that are certified as to their accuracy and basis of accounting (in accordance with international accounting standards or generally accepted accounting principles in the United States) by an officer of the entity with the title of chief financial officer or equivalent position; (ii) reviewed statements; (iii) compiled statements; (iv) internally prepared statements; or (v) tax returns).

Except in the case of a Non-Market Participant Transmission Customer that submits audited financial statements to the ISO, financial statements submitted to the ISO pursuant to this Section V.C shall be accompanied by a written statement from a Senior Officer of the Non-Market Participant Transmission Customer certifying the accuracy of those financial statements. If an attestation was made by an independent accounting firm, then the written statement shall indicate the level of attestation made; if no attestation was made by an independent accounting firm, then no such indication is required.

Notwithstanding any other provision in this subsection, the ISO may require any Non-Market Participant Transmission Customer to submit the financial statements and other information described in this subsection. The Non-Market Participant Transmission Customer shall provide the requested statements and other information within 10 days of such request. If a Non-Market Participant Transmission Customer fails to provide financial statements or other information as requested and the ISO determines that the Non-Market Participant Transmission Customer poses an unreasonable risk to the New England Markets, then the ISO may request that the Non-Market Participant Transmission Customer provide additional financial assurance in an amount no greater than \$10 million, or take other measures to substantiate the Non-Market Participant Transmission Customer's ability to safely transact in the New England Markets (any additional financial assurance provided pursuant to this Section V.C shall not be counted toward satisfaction of the total financial assurance requirements as calculated pursuant to the ISO New England Financial Assurance Policy). If the Non-Market Participant Transmission Customer fails to comply with such a request from the ISO, then the ISO may issue a notice of suspension or termination to the Non-Market Participant Transmission Customer. If the Non-Market Participant Transmission Customer fails to comply with the ISO's request within 5 Business Days from the date of issuance of the notice of suspension or termination, then the ISO may suspend or terminate the Non-Market Participant Transmission Customer.

A Non-Market Participant Transmission Customer may choose not to submit financial statements as described in this Section V.C, in which case the ISO shall use a value of \$0.00 for the Non-Market Participant Transmission Customer's total assets and Tangible Net Worth for purposes of the capitalization assessment described in Section II.A.4(a) and such Non-Market Participant Transmission Customer's Market Credit Limit and Transmission Credit Limit shall be \$0.00.

A Non-Market Participant Transmission Customer may choose to provide additional financial assurance in an amount equal to \$10 million in lieu of providing financial statements under this Section V.C. Such amount shall not be counted toward satisfaction of the total financial assurance requirements as calculated pursuant to the ISO New England Financial Assurance Policy but shall be sufficient to meet the capitalization requirements in Section II.A.4(a)(iii).

D. Financial Assurance Requirement for Non-Market Participant Transmission Customers

Each Non-Market Participant Transmission Customer that provides additional financial assurance pursuant to the ISO New England Financial Assurance Policy must provide the ISO with financial assurance in one of the forms described in Section X below and in the amount described in this Section V.D (the “NMPTC Financial Assurance Requirement”).

1. Financial Assurance for ISO Charges

Each Non-Market Participant Transmission Customer must provide the ISO with additional financial assurance such that the sum of its Market Credit Limit and that additional financial assurance shall at all times be at least equal to the sum of:

- (i) two and one-half (2.5) times the average monthly Non-Hourly Charges for such Non-Market Participant Transmission Customer over the two most recently invoiced calendar months (which amount shall not in any event be less than \$0); plus
- (ii) amount of any unresolved Disputed Amounts received by such Non-Market Participant Transmission Customer.

2. Financial Assurance for Transmission Charges

Each Non-Market Participant Transmission Customer must provide the ISO with additional financial assurance hereunder such that the sum of (x) its Transmission Credit Limit and (y) the excess of (A) the available amount of the additional financial assurance provided by that Non-Market Participant Transmission Customer over (B) the amount of that additional financial assurance needed to satisfy the requirements of Section V.D.1 above is equal to two and one-half (2.5) times the average monthly Transmission Charges for such Non-Market Participant Transmission Customer over the two most recently invoiced calendar months (which amount shall not in any event be less than \$0)

3. Notice of Failure to Satisfy NMPTC Financial Assurance Requirement

A Non-Market Participant Transmission Customer that knows or can reasonably be expected to know that it is not satisfying its NMPTC Financial Assurance Requirement shall notify the ISO immediately of that fact. Without limiting the availability of any other remedy or right hereunder, failure by any Non-Market Participant Transmission

Customer to comply with the provisions of the ISO New England Financial Assurance Policy (including failure to satisfy its NMPTC Financial Assurance Requirement) may result in the commencement of termination of service proceedings against that non-complying Non-Market Participant Transmission Customer.

VI. ADDITIONAL PROVISIONS FOR FTR TRANSACTIONS

Market Participants must complete an ISO-prescribed training course prior to participating in the FTR Auction. All Market Participants transacting in the FTR Auction that are otherwise required to provide additional financial assurance under the ISO New England Financial Assurance Policy, including all FTR-Only Customers (“Designated FTR Participants”) are required to provide financial assurance in an amount equal to the sum of the FTR Settlement Risk Financial Assurance, the Unsettled FTR Financial Assurance, and the Settlement Financial Assurance, each as described in this Section VI (such sum being referred to in the ISO New England Financial Assurance Policy as the “FTR Financial Assurance Requirements”).

A. FTR Settlement Risk Financial Assurance

A Designated FTR Participant is required to provide “FTR Settlement Risk Financial Assurance” for each bid it submits into an FTR Auction and for each FTR that is awarded to it in an FTR Auction, as described below.

After bids are finalized for an FTR Auction, but before the auction results are final, a Designated FTR Participant must provide FTR Settlement Risk Financial Assurance based on its bids for each FTR path. The ISO will calculate an FTR Settlement Risk Financial Assurance amount for each direction (prevailing flow and counter flow) of each FTR path on which the Designated FTR Participant has bid, equal to the total number of MW bid for that direction of the FTR path multiplied by the applicable proxy value for the FTR path (as described below) multiplied by the number of hours associated with the bid. For that FTR path, the Designated FTR Participant must provide FTR Settlement Risk Financial Assurance equal to the higher of the amounts calculated for each direction.

Once an FTR Auction’s results are final, a Designated FTR Participant must provide FTR Settlement Risk Financial Assurance based on awarded FTRs, equal to the MW value of each awarded FTR multiplied by the applicable proxy value for the FTR path (as described below) multiplied by the number of hours associated with the FTR. For

purposes of this calculation, the ISO will net the MW values of a Designated FTR Participant's awarded FTRs having the same or opposite path, same contract month, and same type (on-peak or off-peak). For purposes of this netting, annual FTRs may be converted into monthly positions.

The proxy value for each FTR path, which shall be calculated separately for on-peak and off-peak FTRs, will be based on the standard deviation observed in the difference between the average congestion components of the Locational Marginal Price in the Day-Ahead Energy Market at the path's sink and source for the previous 36 months, with differing multipliers for annual and monthly FTRs and for prevailing flow and counter flow paths. These multipliers will be reviewed and approved by the NEPOOL Budget and Finance Subcommittee and shall be posted on the ISO's website. Where there is insufficient data to perform these calculations for a node, zonal data will be used instead.

FTR Settlement Risk Financial Assurance will be adjusted as the awarded FTRs are settled. In no event will the FTR Settlement Risk Financial Assurance be less than \$0.

B. Unsettled FTR Financial Assurance

A Designated FTR Participant is required to maintain, at all times, "Unsettled FTR Financial Assurance" for all FTRs awarded to it in any FTR Auctions. Immediately after FTRs are awarded in an FTR Auction, the Unsettled FTR Financial Assurance for those FTRs shall be zero. After subsequent FTR Auctions, the Unsettled FTR Financial Assurance for each FTR awarded in a previous FTR Auction shall be adjusted to reflect any change in the clearing price for that FTR based on non-zero volume. The adjustment will be equal to the change in the clearing price multiplied by the number of MW of the previously awarded FTR, with increases in the clearing price reducing the Unsettled FTR Financial Assurance amount and decreases in the clearing price increasing the Unsettled FTR Financial Assurance amount. For purposes of these calculations, the ISO will consider FTRs having the same or opposite path, same contract month, and same type (on-peak or off-peak) together. A Designated FTR Participant's Unsettled FTR Financial Assurance may be a charge or a credit, and in the case of a credit, may offset the Designated FTR Participant's other FTR Financial Assurance Requirements (but not to less than zero). A Designated FTR Participant's Unsettled FTR Financial Assurance will be adjusted as the awarded FTRs are settled.

C. Settlement Financial Assurance

A Designated FTR Participant that has been awarded a bid in an FTR Auction is required to provide “Settlement Financial Assurance.” The amount of a Designated FTR Participant’s Settlement Financial Assurance shall be equal to the amount of any settled but uninvoiced Charges incurred by such Designated FTR Participant for FTR transactions less the settled but uninvoiced amounts due to such Market Participant for FTR transactions. These amounts shall include the costs of acquiring FTRs as well as payments and charges associated with FTR settlement.

D. Consequences of Failure to Satisfy FTR Financial Assurance Requirements

If a Designated FTR Participant does not have additional financial assurance equal to its FTR Financial Assurance Requirements (in addition to its other financial assurance obligations hereunder) in place at the time an FTR Auction into which it has bid closes, then, in addition to the other consequences described in the ISO New England Financial Assurance Policy, all bids submitted by that Designated FTR Participant for that FTR Auction will be rejected. The Designated FTR Participant will be allowed to participate in the next FTR Auction held provided it meets all requirements for such participation, including without limitation those set forth herein. Each Designated FTR Participant must maintain the requisite additional financial assurance equal to its FTR Financial Assurance Requirements for the duration of the FTRs awarded to it. The amount of any additional financial assurance provided by a Designated FTR Participant in connection with an unsuccessful bid in an FTR Auction which, as a result of such bid being unsuccessful, is in excess of its FTR Financial Assurance Requirements will be held by the ISO and will be applied against future FTR bids by and awards to that Designated FTR Participant unless that Designated FTR Participant requests in writing to have such excess financial assurance returned to it. Prior to returning any financial assurance to a Designated FTR Participant, the ISO shall use such financial assurance to satisfy any overdue obligations of that Designated FTR Participant. The ISO shall only return to that Designated FTR Participant the balance of such financial assurance after all such overdue obligations have been satisfied.

VII. ADDITIONAL PROVISIONS FOR FORWARD CAPACITY MARKETS

Any Lead Market Participant, including any Provisional Member that is a Lead Market Participant, transacting in the Forward Capacity Market that is otherwise required to provide additional financial assurance under the ISO New England Financial Assurance Policy (each a “Designated FCM Participant”), is required to provide additional financial assurance meeting the requirements of Section X below in the amounts described in this Section VII (such amounts being referred to in the ISO New England Financial Assurance Policy as the “FCM Financial Assurance Requirements”). If the Lead Market Participant for a Resource changes, then the new Lead Market Participant for the Resource shall become the Designated FCM Participant.

A. FCM Delivery Financial Assurance

Each Designated FCM Participant that has a Capacity Supply Obligation for the Capacity Commitment Period associated with the sixteenth Forward Capacity Auction or any Capacity Commitment Period thereafter, shall be subject to a “Corporate Liquidity Assessment” as described in this Section VII.A to determine its FCM Delivery Financial Assurance.

1. FCM Delivery Financial Assurance Calculation

A Designated FCM Participant must include, for the Capacity Supply Obligation of each resource in its portfolio other than the Capacity Supply Obligation associated with any Energy Efficiency measures, FCM Delivery Financial Assurance in the calculation of its FCM Financial Assurance Requirements under the ISO New England Financial Assurance Policy. If a Designated FCM Participant’s FCM Delivery Financial Assurance is negative, it will be used to reduce the Designated FCM Participant’s Financial Assurance Obligations (excluding FTR Financial Assurance Requirements), but not to less than zero.

FCM Delivery Financial Assurance is calculated according to the following formula for a Designated FCM Participant that has a Capacity Supply Obligation up to and including the end of the Capacity Commitment Period associated with the fifteenth Forward Capacity Auction:

$$\text{FCM Delivery Financial Assurance} = [\text{DFAMW} \times \text{PE} \times \max[(\text{ABR} - \text{CWAP}), 0.1] \times \text{SF}] - \text{IMC} - \text{MCC}$$

FCM Delivery Financial Assurance is calculated according to the following applicable formula for a Designated FCM Participant that has a Capacity Supply Obligation commencing at the beginning of the Capacity Commitment Period associated with the sixteenth Forward Capacity Auction and every Capacity Commitment Period thereafter. The applicable FCM Delivery Financial Assurance formula is determined by the results of a Corporate Liquidity Assessment and is limited by the operation of the applicable stop-loss mechanisms as set forth in Market Rule 1 (including those that may apply in the next Capacity Commitment Period).

Corporate Liquidity Assessment Result: Low Risk

$$\text{FCM Delivery Financial Assurance} = [\text{DFAMW} \times \text{PE} \times \max[(\text{ABR} - \text{CWAP}), 0.1] \times \text{SF}] - \text{IMC} - \text{MCC}$$

Corporate Liquidity Assessment Result: Medium Risk

$$\text{FCM Delivery Financial Assurance} = [\text{DFAMW} \times \text{PE} \times \max[(\text{ABR} - \text{CWAP}), 0.1] \times \text{SF}] - \text{IMC} - \text{MCC} - \text{Peak Monthly Stop-loss} \times \max[(\text{ABR} - \text{CWAP}), 0.1]$$

Corporate Liquidity Assessment Result: High Risk

$$\begin{aligned} \text{FCM Delivery Financial Assurance} = & [\text{DFAMW} \times \text{PE} \times \max[(\text{ABR} - \text{CWAP}), 0.1] \times \text{SF}] - \text{IMC} - \text{MCC} - \text{Peak Monthly Stop-loss} \times \max[(\text{ABR} - \text{CWAP}), 0.1] \\ & - \text{Second Largest Monthly Stop-loss} \times \max[(\text{ABR} - \text{CWAP}), 0.1] \end{aligned}$$

Where:

MCC (monthly capacity charge) equals monthly capacity payments incurred in previous months, but not yet billed. The MCC is estimated from the first day of the current delivery month until it is replaced by the actual settled MCC value when settlement is complete.

IMC (intra-month collateral) equals estimated monthly capacity payments incurred during the current delivery month as limited by the difference (which shall in no event be less than zero) between (A) the minimum of the applicable monthly stop-loss and the remaining annual stop-loss as described in Section III.13.7.3.1 and Section III.13.7.3.2 of Market Rule 1, respectively, and (B) the amount of additional FCM Delivery Financial Assurance when considering the Designated FCM Participant's current month FCM

Delivery Financial Assurance obligation as compared to the Designated FCM Participant's next month FCM Delivery Financial Assurance obligation, in each case without giving effect to the IMC and MCC variables when calculating such additional amount. Where the estimated monthly capacity payments for each Designated FCM Participant, shall be updated three (3) days after publication of the most recent FCM Preliminary Capacity Performance Score report (or equivalent report) on the Market Information Server.

DFAMW (delivery financial assurance MW) equals the sum of the Capacity Supply Obligations of each resource in the Designated FCM Participant's portfolio for the month, excluding the Capacity Supply Obligation of any resource that has reached the annual stop-loss as described in Section III.13.7.3.2 of Market Rule 1. If the calculated DFAMW is less than zero, then the DFAMW will be set equal to zero.

PE (potential exposure) is a monthly value calculated for the Designated FCM Participant's portfolio as the difference between the Capacity Supply Obligation weighted average Forward Capacity Auction Starting Price and the Capacity Supply Obligation weighted average capacity price for the portfolio, excluding the Capacity Supply Obligation of any resource that has reached the annual stop-loss as described in Section III.13.7.3.2 of Market Rule 1. The Forward Capacity Auction Starting Price shall correspond to that used in the Forward Capacity Auction corresponding to the current Capacity Commitment Period and the capacity prices shall correspond to those used in the calculation of the Capacity Base Payment for each Capacity Supply Obligation in the delivery month.

In the case of a resource subject to a multi-year Capacity Commitment Period election made in a Forward Capacity Auction prior to the ninth Forward Capacity Auction as described in Sections III.13.1.1.2.2.4 and III.13.1.4.1.1.2.7 of Market Rule 1, the Forward Capacity Auction Starting Price shall be replaced with the applicable Capacity Clearing Price (indexed for inflation) in the above calculation until the multi-year election period expires.

ABR (average balancing ratio) is the duration-weighted average of all of the system-wide Capacity Balancing Ratios calculated for each system-wide Capacity Scarcity Condition

occurring in the relevant group of months in the three Capacity Commitment Periods immediately preceding the current Capacity Commitment Period and those occurring in the months within the relevant group that are prior to the current month of the current Capacity Commitment Period. Three separate groups of months shall be used for this purpose: June through September, December through February, and all other months. Until data exists to calculate this number, the temporary ABR for June through September shall equal 0.90; the temporary ABR for December through February shall equal 0.70; and the temporary ABR for all other months shall equal 0.60. As actual data becomes available for each relevant group of months, calculated values for the relevant group of months will replace the temporary ABR values after the end of each group of months each year until all ABR values reflect actual data.

CWAP (capacity weighted average performance) is the capacity weighted average performance of the Designated FCM Participant's portfolio. For each resource in the Designated FCM Participant's portfolio, excluding any resource that has reached the annual stop-loss as described in Section III.13.7.3.2 of Market Rule 1, and excluding from the remaining resources the resource having the largest Capacity Supply Obligation in the month, the resource's Capacity Supply Obligation shall be multiplied by the average performance of the resource. The CWAP shall be the sum of all such values, divided by the Designated FCM Participant's DFAMW. If the DFAMW is zero, then the CWAP is set equal to one.

The average performance of a resource is the Actual Capacity Provided during Capacity Scarcity Conditions divided by the product of the resource's Capacity Supply Obligation and the equivalent hours of Capacity Scarcity Conditions in the relevant group of months in the three Capacity Commitment Periods immediately preceding the current Capacity Commitment Period and those occurring in the months within the relevant group that are prior to the current month of the current Capacity Commitment Period. Three separate groups of months shall be used for this purpose: June through September, December through February, and all other months. Until data exists to calculate this number, the temporary average performance for gas-fired steam generating resources, combined-cycle combustion turbines and simple-cycle combustion turbines shall equal 0.90; the temporary average performance for coal-fired steam generating resources shall equal 0.85; the temporary average performance for oil-fired steam generating resources shall

equal 0.65; the temporary average performance for all other resources shall equal 1.00. As actual data for each resource becomes available for each relevant group of months, calculated values for the relevant group of months will replace the temporary average performance values after the end of each group of months each year until all average performance values reflect actual data. The applicable temporary average performance value will be used for new and existing resources until actual performance data is available.

SF (scaling factor) is a month-specific multiplier, as follows:

June and December	2.000;
July and January	1.732;
August and February	1.414;
All other months	1.000.

Peak Monthly Stop-loss equals the largest monthly stop-loss for the Designated FCM Participant that would occur during the period from the current delivery month through the following five consecutive months, where each monthly stop-loss is equal to the sum of the monthly stop-losses of each resource in the Designated FCM Participant's portfolio as described in Section III.13.7.3.1 of Market Rule 1.

Second Largest Monthly Stop-loss equals the second largest monthly stop-loss for the Designated FCM Participant that would occur during the period from the current delivery month through the following five consecutive months, where each monthly stop-loss is equal to the sum of the monthly stop-losses of each resource in the Designated FCM Participant's portfolio as described in Section III.13.7.3.1 of Market Rule 1.

2. Corporate Liquidity Assessment Methodology

The ISO will perform a "Corporate Liquidity Assessment" to determine the appropriate liquidity risk assessment category for each Designated FCM Participant (i.e., low risk, medium risk, or high risk) that has a Capacity Supply Obligation for the Capacity Commitment Period associated with the sixteenth Forward Capacity Auction or any Capacity Commitment Period thereafter.

- (a) For each Designated FCM Participant, the Corporate Liquidity Assessment shall be performed as follows:
- When the Available Corporate Liquidity is greater than or equal to the sum of the three largest Applicable Monthly Stop-losses during the Calculation Period, the Designated FCM Participant shall be considered low risk;
 - When the Available Corporate Liquidity is less than the sum of the three largest but greater than or equal to the sum of the two largest Applicable Monthly Stop-losses during the Calculation Period, the Designated FCM Participant shall be considered medium risk; and
 - When the Available Corporate Liquidity is less than the sum of the two largest Applicable Monthly Stop-losses during the Calculation Period, the Designated FCM Participant shall be considered high risk.
- (b) For Designated FCM Participants that have provided a guaranty (in accordance with this Section VII.A) from the same Affiliate, or for Designated FCM Participants that are also providing a guaranty (in accordance with this Section VII.A) for an Affiliate:
- The respective Designated FCM Participants will be assessed as a whole and will be collectively assigned one Corporate Liquidity Assessment result (i.e., low risk, medium risk, or high risk);
 - When the Available Corporate Liquidity is greater than or equal to the sum of the three largest aggregated Applicable Monthly Stop-losses during the Calculation Period, each Designated FCM Participant in the collective assessment is considered low risk;
 - When the Available Corporate Liquidity is less than the sum of the three largest aggregated Applicable Monthly Stop-losses but is greater than or equal to the sum of two largest aggregated Applicable Monthly Stop-losses during the Calculation Period, each Designated FCM Participant in the collective assessment is considered medium risk; and
 - When the Available Corporate Liquidity is less than the sum of the two largest aggregated Applicable Monthly Stop-losses during the Calculation Period, each Designated FCM Participant in the collective assessment is considered high risk.
- (c) For Designated FCM Participants that have provided a guaranty (in accordance with this Section VII.A) from multiple Affiliates:

- The guarantors' financial statements will be considered on an aggregate basis for purposes of the Available Corporate Liquidity calculation taking into account other guaranties provided by any such guarantor under this Section VII.A.

Where:

Calculation Period is the current delivery month through the following five consecutive months.

The Applicable Monthly Stop-loss equals the sum of the monthly stop-losses for each resource in a Designated FCM Participant's portfolio as described in Section III.13.7.3.1 of Market Rule 1 for the corresponding months within the Calculation Period.

Available Corporate Liquidity is the sum of unrestricted cash and cash equivalents; marketable securities and money market instruments; undrawn committed credit facilities not expiring within three months of the date of the applicable financial statements; and excess financial assurance. Other than with respect to excess financial assurance, such values shall be (a) as reflected on the most recent financial statements provided by the Designated FCM Participant, provided that such financial statements were provided for the most recently completed financial reporting period and compliant with the requirements of this Section VII.A, and (b) calculated in accordance with international accounting standards or generally accepted accounting principles in the United States at the time of determination consistently applied. Excess financial assurance shall be calculated as any financial assurance (in an acceptable form in accordance with Section X) provided by the Designated FCM Participant covering its FCM Delivery Financial Assurance obligations plus any financial assurance (in an acceptable form in accordance with Section X) provided by the Designated FCM Participant in excess of its total Financial Assurance Obligations, each as reflected in the ISO's Financial Assurance Management (FAM) or equivalent system.

For the avoidance of doubt, the components of the Available Corporate Liquidity calculation that are derived from financial statements shall be based on the financial statements of the Designated FCM Participant unless it provides an Affiliate guaranty in compliance with this Section VII.A, in which case the values shall be based on the

financial statements of the entity(ies) providing the guaranty. If an acceptable Affiliate guaranty is provided, stop-loss and excess financial assurance values will still be based on the Designated FCM Participant.

Each Designated FCM Participant shall submit to the ISO, on a quarterly basis, its (or its guarantor's, as applicable) audited or unaudited balance sheet or equivalent financial statements, which shall show sufficient detail for the ISO to assess the Designated FCM Participant's (or guarantor's, as applicable) Available Corporate Liquidity. Such financial information shall be accompanied by a certificate from a Senior Officer of the Designated FCM Participant (or guarantor as applicable) that provides the relevant financial information and certifies the accuracy of the attached financial statements. If an attestation was made by an independent accounting firm, then the certificate shall indicate the level of attestation made; if no attestation was made by an independent accounting firm, then no such indication is required. The ISO shall post a generally acceptable "clean" form of certificate on its website. Financial statements provided on a quarterly basis shall be submitted within 10 days of such statements becoming available and within 65 days after the end of the applicable fiscal quarter.

Designated FCM Participants that are assessed as medium risk or high risk may elect to provide financial statements on a monthly basis until such a time as they are subsequently assessed as a lower risk category (e.g., from high risk to medium risk, medium risk to low risk, or high risk to low risk); provided that such election shall be for a minimum period of six continuous months during which they are continuously assessed at a lower risk category. Financial statements submitted on a monthly basis are required to be provided to the ISO within 20 days after the end of the prior month and otherwise be provided in accordance with this Section VII.A.

A Designated FCM Participant may choose not to submit financial statements as described in this Section VII.A. If a Designated FCM Participant chooses not to submit financial statements as described in this Section VII.A or if such financial statements are not compliant with the requirements described in this Section VII.A, the ISO shall use a value of \$0.00 for Available Corporate Liquidity values derived from financial statements until such time as compliant financial statements are provided.

The ISO shall review the information provided pursuant to this Section VII.A on a rolling basis and will calculate the Available Corporate Liquidity within a reasonable time period which shall not exceed 30 Business Days from the date of receipt.

3. FCM Affiliate Guaranties

For the purposes of the Corporate Liquidity Assessment, a Designated FCM Participant may provide an unconditional, irrevocable guaranty from an Affiliate to the ISO guaranteeing the payment of all Capacity Performance Payments owed by the Designated FCM Participant. Upon the ISO's acceptance of an Affiliate guaranty, the guarantor(s) must provide financial statements in accordance with this Section VII.A, and the Corporate Liquidity Assessment will be performed based on the financial information of the guarantor(s). The ISO will post a generally acceptable sample "clean" guaranty on its website, and all guaranties provided pursuant to this Section VII.A shall be in such form with only non-material changes (as determined by the ISO in its sole discretion). The ISO in its sole discretion may update the form guaranty from time to time. The ISO has the right to draw upon the guaranty in the event of a default under the ISO New England Billing Policy up to any amount owed for unpaid Capacity Performance Payments. At any time, the ISO may in its sole discretion provide notice to a Designated FCM Participant that it is choosing to reject or terminate its Affiliate guaranty because such guaranty presents unreasonable risk to the ISO or the New England Markets. In the case of a termination (or planned termination), upon the ISO providing such notice the guaranty shall not be considered for purposes of such Designated FCM Participant's Corporate Liquidity Assessment beginning at 8:30 a.m. on the next Business Day, provided that the ISO may, in its sole discretion, extend this period by up to twenty (20) Business Days. For the avoidance of doubt, notice from the ISO to the Designated FCM Participant that the guaranty its Affiliate provided is being terminated (or will be terminated), does not constitute a termination notice under such guaranty and the ISO, in its sole discretion, may choose when to send the applicable termination notice under the terms of such guaranty.

In the ISO's sole discretion, a Designated FCM Participant may provide an unconditional, irrevocable guaranty from multiple Affiliates to the ISO guaranteeing the payment of all Capacity Performance Payments owed by the Designated FCM

Participant, so long as such guaranty is otherwise in accordance with this Section VII.A and the guarantors have joint and several liability under such guaranty.

B. Non-Commercial Capacity

Notwithstanding any provision of this Section VII to the contrary, a Designated FCM Participant offering Non-Commercial Capacity for a Resource that elected existing Resource treatment for the Capacity Commitment Period beginning June 1, 2010 will not be subject to the provisions of this Section VII.B with respect to that Resource (other than financial assurance obligations relating to transfers of Capacity Supply Obligations).

1. FCM Deposit

A Designated FCM Participant offering Non-Commercial Capacity into any upcoming Forward Capacity Auction must include in the calculation of its FCM Financial Assurance Requirements under the ISO New England Financial Assurance Policy, beginning at 8 a.m. (Eastern Time) on the fifth (5th) Business Day after its qualification for such auction under Market Rule 1, an amount equal to \$2/kW times the Non-Commercial Capacity qualified for such Forward Capacity Auction by such Designated FCM Participant (the “FCM Deposit”).

2. Non-Commercial Capacity in Forward Capacity Auctions

a. [Reserved for Future Use]

b. Non-Commercial Capacity Participating in Forward Capacity Auctions

A Designated FCM Participant offering Non-Commercial Capacity into the Forward Capacity Auction must include in the calculation of its FCM Financial Assurance Requirements under the ISO New England Financial Assurance Policy, beginning at 8 a.m. (Eastern Time) on the tenth Business Day prior to the Forward Capacity Auction an amount calculated according to the following formula:

Non-Commercial Capacity Financial Assurance Amount = (NCC x NCCFCA\$ x Multiplier) – FCM Deposit

Where:

NCC = the amount of Qualified Capacity that the ISO has qualified for the Designated FCM Participant for the Forward Capacity Auction minus any Commercial Capacity

NCCFCA\$ = the Net CONE associated with the Forward Capacity Auction for which the NCC has qualified (adjusted as described in Section III.13.2.4).

Multiplier = one if the auction occurs within 40 months of the commencement of the Capacity Commitment Period for which the NCC has qualified; two if the auction occurs within 28 months of the commencement of the Capacity Commitment Period for which the NCC has qualified; and three if the auction begins within 16 months of the commencement of the Capacity Commitment Period for which the NCC has qualified.

FCM Deposit = \$2/kW times the Non Commercial Capacity qualified for such Forward Capacity Auction by such Designated FCM Participant

Upon completion of the Forward Capacity Auction, the Non-Commercial Capacity Financial Assurance Amount shall be recalculated according to the following formula:

Non-Commercial Capacity Financial Assurance Amount = (NCC x NCCFCA\$ x Multiplier) + NCC Trading FA

Where:

NCC = the Capacity Supply Obligation awarded to the Designated FCM Participant in the Forward Capacity Auction minus any Commercial Capacity

For Capacity Supply Obligations acquired in Forward Capacity Auctions up to and including the thirteenth Forward Capacity Auction, NCCFCA\$ = the Capacity Clearing Price from the first run of the auction-clearing process of the Forward Capacity Auction in which the Capacity Supply Obligation was awarded. For Capacity Supply Obligations acquired in the fourteenth Forward Capacity Auction and all Forward Capacity Auctions thereafter, NCCFCA\$ = the Net CONE associated with the Forward Capacity Auction in which the Capacity Supply Obligation was awarded (adjusted as described in Section III.13.2.4).

Multiplier = one beginning at 8 a.m. (Eastern Time) on the first Business Day occurring within 40 months of the commencement of the Capacity Commitment Period for which the Capacity Supply Obligation was awarded; two beginning at 8 a.m. (Eastern Time) on the first Business Day occurring within 28 months of the commencement of the Capacity Commitment Period for which the Capacity Supply Obligation was awarded; and three beginning at 8 a.m. (Eastern Time) on the first Business Day occurring within 16 months of the commencement of the Capacity Commitment Period for which the Capacity Supply Obligation was awarded.

In the case of Non-Commercial Capacity that fails to become commercial by the commencement of the Capacity Commitment Period associated with the Forward Capacity Auction in which it was awarded a Capacity Supply Obligation, the Non-Commercial Capacity Financial Assurance Amount shall be recalculated as follows: beginning at 8 a.m. (Eastern Time) on the first Business Day of the second month of the Capacity Commitment Period associated with the Forward Capacity Auction in which the Capacity Supply Obligation was awarded, the Multiplier in the recalculation of the Non-Commercial Capacity Financial Assurance Amount shall be four. The Multiplier in the recalculation of the Non-Commercial Capacity Financial Assurance Amount shall increase by one every six months thereafter until the Non-Commercial Capacity becomes commercial or the Capacity Supply Obligation is terminated.

For Capacity Supply Obligations acquired in Forward Capacity Auctions up to and including the twelfth Forward Capacity Auction, NCC Trading FA = zero. For Capacity Supply Obligations acquired in the thirteenth Forward Capacity Auction and all Forward Capacity Auctions thereafter, NCC Trading FA shall be zero until the start of the applicable Capacity Commitment Period, at which time NCC Trading FA shall be calculated as described below, except that in no case shall NCC Trading FA be less than zero:

- (a) the total amount of NCC that has been shed (whether before or after the start of the Capacity Commitment Period) in any reconfiguration auctions or Capacity Supply Obligation Bilaterals or that is subject to a failure to cover charge pursuant to Section III.13.3.4(b) (but this total amount shall not be greater than NCC); multiplied by

(b) the difference between: (x) the weighted average price at which the Capacity Supply Obligation was acquired in the Forward Capacity Auction (adjusted, where appropriate, in accordance with the Handy-Whitman Index of Public Utility Construction Costs); and (y) the weighted average price or failure to cover charge rate at which the Capacity Supply Obligation was shed or assessed, as applicable, except that for monthly Capacity Supply Obligation Bilaterals, one of the following prices will be used:

- (i) If the Designated FCM Participant does not certify to the ISO that it has not entered into any contract or other transaction with another party regarding the pricing of such Capacity Supply Obligation Bilateral (other than those to be settled by the ISO) that has the effect of deflating its NCC Trading FA, then the lower of: (1) the applicable monthly reconfiguration auction price, and (2) the Capacity Supply Obligation Bilateral price shall be used;
- (ii) If the Designated FCM Participant provides the certification described in subsection (i) above, is the Capacity Transferring Resource, and is an Affiliate of the Capacity Acquiring Resource, then the lower of: (1) the Capacity Supply Obligation Bilateral price, and (2) the applicable Capacity Clearing Price (adjusted, where appropriate, in accordance with the Handy-Whitman Index of Public Utility Construction Costs) shall be used; or
- (iii) If neither subsection (i) nor (ii) applies, then the Capacity Supply Obligation Bilateral price shall be used.

plus

(c) the quantity of any Annual Reconfiguration Transactions associated with NCC for the relevant Capacity Commitment Period in which the Designated FCM Participant is the Capacity Transferring Resource (but this amount shall not be greater than NCC) multiplied by the difference between: (x) the applicable annual reconfiguration auction clearing price, and (y) the transaction price, which shall equal one of the following:

- (i) If the Designated FCM Participant does not certify to the ISO that it has not entered into any contract or other transaction with another party regarding the pricing of such Annual Reconfiguration Transaction (other than those to be settled by the ISO) that has the

effect of deflating its NCC Trading FA, the transaction price shall be equal to the lower of: (1) the applicable annual reconfiguration auction clearing price, and (2) the applicable Annual Reconfiguration Transaction price;

- (ii) If the Designated FCM Participant provides the certification described in subsection (i) above, is the Capacity Transferring Resource, and is an Affiliate of the Capacity Acquiring Resource, then the transaction price shall be equal to the lower of: (1) the applicable Annual Reconfiguration Transaction price, and (2) the applicable Capacity Clearing Price (adjusted, where appropriate, in accordance with the Handy-Whitman Index of Public Utility Construction Costs); or
- (iii) If neither subsection (i) nor (ii) applies, then the applicable Annual Reconfiguration Transaction price shall be used.

c. Non-Commercial Capacity Deferral

Where the Commission approves a request to defer a Capacity Supply Obligation filed pursuant to Section III.13.3.7 of Market Rule 1, the Designated FCM Participant must include in the calculation of its FCM Financial Assurance Requirements under the ISO New England Financial Assurance Policy, beginning at 8 a.m. (Eastern Time) 30 days after Commission approval of the request to defer, an amount equal to the amount that would apply to a resource that has not achieved commercial operation one year after the start of a Capacity Commitment Period in which it has a Capacity Supply Obligation, as calculated pursuant to Section VII.B.2.a or Section VII.B.2.b, as applicable.

3. Return of Non-Commercial Capacity Financial Assurance

Non-Commercial Capacity cleared in a Forward Capacity Auction up to and including the eighth Forward Capacity Auction that is declared commercial and has had its capacity rating verified by the ISO or otherwise becomes a Resource meeting the definition of Commercial Capacity, or that is declared commercial and had a part of its capacity rating verified by the ISO and the applicable Designated FCM Participant indicates no additional portions of that Resource will become commercial, that portion of the Resource shall no longer be considered Non-Commercial Capacity under the ISO New

England Financial Assurance Policy and will instead become subject to the provisions of the ISO New England Financial Assurance Policy relating to Commercial Capacity; provided that in either such case, the Designated FCM Participant will need to include in the calculation of its Financial Assurance Requirement an amount attributable to any remaining Non-Commercial Capacity.

Once Non-Commercial Capacity associated with a Capacity Supply Obligation awarded in the ninth Forward Capacity Auction and all Forward Capacity Auctions thereafter becomes commercial, the Non-Commercial Capacity Financial Assurance Amount for any remaining Non-Commercial Capacity shall be recalculated according to the process outlined above for Non-Commercial Capacity participating in the ninth Forward Capacity Auction and all Forward Capacity Auctions thereafter.

4. Credit Test Percentage Consequences for Provisional Members

If a Provisional Member is required to provide additional financial assurance under the ISO New England Financial Assurance Policy solely in connection with (A) a supply offer of Non-Commercial Capacity into any Forward Capacity Auction and (B) its obligation to pay Participant Expenses as a Provisional Member, and that Provisional Member is maintaining the amount of additional financial assurance required under the ISO New England Financial Assurance Policy, then the provisions of Section III.B of the ISO New England Financial Assurance Policy relating to the consequences of that Market Participant's Market Credit Test Percentage equaling 80 percent (80%) or 90 percent (90%) shall not apply to that Provisional Member.

C. [Reserved for Future Use]

D. Loss of Capacity and Forfeiture of Non-Commercial Capacity Financial Assurance

If a Designated FCM Participant that has acquired Capacity Supply Obligations associated with Non-Commercial Capacity is in default under the ISO New England Financial Assurance Policy or the ISO New England Billing Policy and does not cure such default within the appropriate cure period, or if a Designated FCM Participant is in default under the ISO New England Financial Assurance Policy or the ISO New England Billing Policy during the period between the day that is three Business Days before the FCM Deposit is required and the first day of the Forward Capacity Auction and does not

cure such default within the appropriate cure period, then: (i) beginning with the first Business Day following the end of such cure period that Designated FCM Participant will be assessed a default charge of one percent (1%) of its total Non-Commercial Capacity Financial Assurance Amount at that time for each Business Day that elapses until it cures its default; and (ii) if such default is not cured by 5:00 p.m. (Eastern Time) on the sooner of (x) the fifth Business Day following the end of such cure period or (y) the second Business Day prior to the start of the next scheduled Forward Capacity Auction or annual reconfiguration auction or annual Capacity Supply Obligation Bilateral submission (such period being referred to herein as the “Non-Commercial Capacity Cure Period”), then, in addition to the other actions described in this Section VII, (A) all Capacity Supply Obligations associated with Non-Commercial Capacity that were awarded to the defaulting Designated FCM Participant in previous Forward Capacity Auctions and reconfiguration auctions and that the defaulting Designated FCM Participant acquired by entering into Capacity Supply Obligation Bilaterals shall be terminated; (B) the defaulting Designated FCM Participant shall be precluded from acquiring any Capacity Supply Obligation that would be associated with Non-Commercial Capacity for which the defaulting Designated FCM Participant has submitted an FCM Deposit; (C) the ISO will (1) draw down the entire amount of the FCM Deposit and the Non-Commercial Capacity Financial Assurance Amount associated with the terminated Capacity Supply Obligations and (2) issue an Invoice to the Designated FCM Participant if there is a shortfall resulting from that Designated FCM Participant’s failure to maintain adequate financial assurance hereunder or if the Designated FCM Participant used a Market Credit Limit to meet its FCM Financial Assurance Requirements; and (D) the default charges described in clause (i) above shall not be assessed to that Designated FCM Participant. All default charges collected under clause (i) above will be deposited in the Late Payment Account in accordance with the ISO New England Billing Policy.

If a Designated FCM Participant’s Capacity Supply Obligation is terminated under Market Rule 1, the ISO will draw down the entire Non-Commercial Capacity Financial Assurance Amount provided by such Designated FCM Participant with respect to such terminated Capacity Supply Obligation. If the Designated FCM Participant has not provided enough financial assurance to cover the amount due (or that would have been due but for the Designated FCM Participant’s positive Market Credit Limit) with respect

to such Non-Commercial Capacity Financial Assurance Amount, then the ISO will issue an Invoice to the Designated FCM Participant for the amount due.

E. Composite FCM Transactions

For separate resources that seek to participate as a single composite resource in a Forward Capacity Auction in which multiple Designated FCM Participants provide that capacity (collectively, a “Composite FCM Transaction”), each Designated FCM Participant participating in that Composite FCM Transaction will be responsible for providing the financial assurance required as follows:

1. the FCM Financial Assurance Requirements for each Designated FCM Participant shall be determined solely with respect to the capacity being provided, or sought to be provided, by that Designated FCM Participant;
2. [reserved];
3. if the Composite FCM Transaction involves one or more Resources seeking to provide or providing Non-Commercial Capacity, the Non-Commercial Capacity Financial Assurance Amount under Section VII.B for each Designated FCM Participant with respect to that Composite FCM Transaction will be calculated based on the commercial status of the Non-Commercial Capacity cleared through the Forward Capacity Auction;
4. any Non-Commercial Capacity Financial Assurance Amount provided under Section VII.B by each Designated FCM Participant with respect to each Resource providing Non-Commercial Capacity in the Composite FCM Transaction will be recalculated according to Section VII.B.3 as the corresponding Resource becomes commercial; and
5. in the event that the Capacity Supply Obligation is terminated, Section VII.D shall apply only to the Non-Commercial Capacity of the Designated FCM Participant participating in the Composite FCM Transaction that has failed to satisfy its obligations, and any Invoice issued thereunder will be issued only to that Designated FCM Participant.
6. the FCM Delivery Financial Assurance calculated under Section VII.A for each Designated FCM Participant contributing resources to a Composite FCM Transaction

shall be based on the Capacity Supply Obligation that is provided by that Designated FCM Participant in the current month of the Capacity Commitment Period, provided that the FCM charges incurred in previous months, but not yet paid, shall increase the FCM Financial Assurance Requirements only of the Designated FCM Participant that incurred the charges.

F. Transfer of Capacity Supply Obligations

1. Transfer of Capacity Supply Obligations in Reconfiguration Auctions

A Designated FCM Participant that seeks to transfer its Capacity Supply Obligation in a reconfiguration auction must include in the calculation of its FCM Financial Assurance Requirements under the ISO New England Financial Assurance Policy, prior to the close of bidding in that reconfiguration auction, the amounts described in subsections (a) and (b) below.

- (a) For the 12 month period beginning with the current month, the sum of that Designated FCM Participant's net monthly FCM charges for each month in which the net FCM revenue results in a charge. For purposes of this subsection (a), months in this period in which that Designated FCM Participant's net FCM revenue results in a credit are disregarded (i.e., the net credits from such months are not used to reduce the amount described in this subsection (a)) and the current month FCM charges are prorated to the proportion of remaining days in the month. The amount described in this subsection (a), if any, will increase the Designated FCM Participant's FCM Financial Assurance Requirements.
- (b) For the period including each month that is after the period described in subsection (a) above and that is included in a Capacity Commitment Period for which a Forward Capacity Auction has been conducted, the sum of that Designated FCM Participant's net monthly FCM charges for each month in which the net FCM revenue results in a charge. For this period, the sum of such charges may be offset by net credits from months in which the net FCM revenue results in a credit, but in no case will the amount described in this subsection (b) be less than zero. The amount described in this subsection (b), if any, will increase the Designated FCM Participant's FCM Financial Assurance Requirements.

For purposes of these calculations, the net FCM revenue for a month shall be determined by accounting for all charges and credits related to the purchase or sale of Capacity Supply Obligations, demand bids and Annual Reconfiguration Transactions in the Forward Capacity Market, exclusive of any accrued Capacity Performance Payments on positions currently or previously held. Upon the completion of each reconfiguration auction, the amount to be included in the calculation of any FCM Financial Assurance Requirements of that Designated FCM Participant shall be adjusted to reflect the cleared quantities at the zonal clearing price for all activity in that reconfiguration auction and accepted Annual Reconfiguration Transactions.

2. Transfer of Capacity Supply Obligations in Capacity Supply Obligation Bilaterals

A Designated FCM Participant that seeks to transfer its Capacity Supply Obligation in a Capacity Supply Obligation Bilateral must include in the calculation of its FCM Financial Assurance Requirements under the ISO New England Financial Assurance Policy, prior to the close of the period for submission of that Capacity Supply Obligation Bilateral, amounts calculated as described in Section VII.F.1 above, as applicable. If a Designated FCM Participant fails to provide the required additional financial assurance for its Capacity Supply Obligation Bilaterals, all of those transactions will be rejected. If the Designated FCM Participant's request to transfer a Capacity Supply Obligation in a Capacity Supply Obligation Bilateral is not accepted, it will no longer include amounts related to that Capacity Supply Obligation in the calculation of its FCM Financial Assurance Requirements.

3. Financial Assurance for Annual Reconfiguration Transactions

A Designated FCM Participant that submits an Annual Reconfiguration Transaction must include in the calculation of its FCM Financial Assurance Requirements under the ISO New England Financial Assurance Policy, prior to the close of the period for submission of that Annual Reconfiguration Transaction, amounts calculated as described in Section VII.F.1 above, as applicable. If a Designated FCM Participant fails to provide the required additional financial assurance for its Annual Reconfiguration Transactions, all of those transactions will be rejected. If a transaction is rejected, the Designated FCM Participant is no longer required to include amounts related to that transaction in the calculation of its FCM Financial Assurance Requirements.

4. Substitution Auctions

A Designated FCM Participant that participates in a substitution auction must include the following charges and credits in its FCM Financial Assurance Requirements.

- a. For any supply offer with at least one price-quantity pair priced less than zero must include in the calculation of its FCM Financial Assurance Requirements, beginning at 8 a.m. (Eastern Time) on the tenth Business Day prior to the Forward Capacity Auction, amounts calculated as described in Section VII.F.1 above. For purposes of these calculations, the maximum charge that would result from clearing any price-quantity pairs priced less than zero for each month of the Capacity Commitment Period associated with the Forward Capacity Auction shall be included in the amount calculated as described in Section VII.F.1(b) above, the net FCM revenue for all other months in the defined periods shall be determined by accounting for all charges and credits related to the purchase or sale of Capacity Supply Obligations in the Forward Capacity Market, and any accrued Capacity Performance Payments on positions currently or previously held are excluded.
- b. A Designated FCM Participant (i) that submits a demand bid into a substitution auction for a resource that is subject to a multi-year rate pursuant to Section III.13.1.3.5.4 or Section III.13.1.1.2.2.4, (ii) for which the maximum charge that would result from clearing the capacity subject to the multi-year rate election would exceed the revenue the Designated FCM Participant will receive for the relevant Capacity Commitment Period under its multi-year rate election for the resource, (iii) must include in the calculation of its FCM Financial Assurance Requirements, beginning at 8 a.m. (Eastern Time) on the tenth Business Day prior to the Forward Capacity Auction, amounts calculated as described in Section VII.F.1 above. For purposes of these calculations, the maximum charge that would result from clearing the capacity subject to the multi-year rate election shall be included in the amount calculated as described in Section VII.F.1(b) above, the net FCM revenue for all other months in the defined periods shall be determined by accounting for all charges and credits related to the purchase or sale of Capacity Supply Obligations in the Forward Capacity Market, and any accrued Capacity Performance Payments on positions currently or previously held are excluded.
- c. If a Designated FCM Participant is in default under the ISO New England Financial Assurance Policy or the ISO New England Billing Policy beginning at 8 a.m. (Eastern Time) on the tenth Business Day prior to the Forward Capacity Auction and does not cure such default by the earlier of (i) the end of the appropriate cure period and (ii) 5 p.m. (Eastern Time) on the second Business

Day prior to the start of the Forward Capacity Auction, then the defaulting Designated FCM Participant shall be precluded from submitting a supply offer or demand bid that is subject to this Section VII.F.4.

- d. Upon the completion of the substitution auction, the amount to be included in the calculation of the FCM Financial Assurance Requirements for a Designated FCM Participant as described in Section VII.F.1 above shall be adjusted to reflect all charges and credits related to the purchase or sale of Capacity Supply Obligations in the substitution auction.

VIII. [Reserved]

IX. THIRD-PARTY CREDIT PROTECTION

The ISO shall obtain third-party credit protection, in the form of credit insurance coverage (“Credit Coverage”), on terms acceptable to the ISO in its reasonable discretion at least in an amount covering collectively the Credit Qualifying Rated Market Participants based on the formula below.

Notwithstanding the foregoing, if the entity providing such Credit Coverage cannot provide the amount required by this Section IX, the ISO will reduce the required coverage for all Credit Qualifying Rated Market Participants on a pro rata basis. The total amount of the Credit Coverage shall be at least the aggregate of the following formula; provided, however, if the entity providing the Credit Coverage denies coverage (in whole or in part) for any Credit Qualifying Rated Market Participant based on its rights under the insurance policy, the ISO will use reasonable efforts to obtain documentation regarding the denial and will make reasonable efforts to appeal such denial. For each Credit Qualifying Rated Market Participant, the portion of the Credit Coverage shall be the lesser of: (A) the sum of (x) 2.5 times the average Hourly Charges for such Credit Qualifying Rated Market Participant within the previous fifty-two calendar weeks plus (y) 2.5 times the sum of the average Non-Hourly Charges (excluding charges or credits related to FTR transactions) and the average Transmission Charges for such Credit Qualifying Rated Market Participant within the previous twelve calendar months; or (B) \$50 million. For any Credit Qualifying Rated Market Participant, the applicable amount of the Credit Coverage shall be adjusted monthly if the above formula produces a change that is either (A) 10% or greater, or (B) greater than \$100,000. The Credit Coverage shall be provided by an insurance company rated “A-” or better by A.M. Best & Co. or “A” or better by S&P. The cost of the Credit Coverage obtained for each calendar year shall be allocated to all Credit Qualifying Rated Market Participants pro rata based, for each Credit Qualifying Rated Market Participant, on the average amount of the Invoices issued to that Credit Qualifying Rated Market Participant under the ISO New England Billing Policy in the preceding calendar

year. Each Credit Qualifying Rated Market Participant shall provide the ISO with such information as may be reasonably necessary for the ISO to obtain the Credit Coverage at the lowest possible cost.

X. ACCEPTABLE FORMS OF FINANCIAL ASSURANCE

Provided that the requirements set forth herein are satisfied, acceptable forms of financial assurance include shares of registered or private mutual funds held in a shareholder account or a letter of credit, each in accordance with the provisions of this Section X. All costs associated with obtaining financial security and meeting the provisions of the ISO New England Financial Assurance Policy are the responsibility of the Market Participant or Non-Market Participant Transmission Customer providing that security (each a "Posting Entity"). Any Posting Entity requesting a change to one of the model forms attached to the ISO New England Financial Assurance Policy which would be specific to such Posting Entity (as opposed to a generic improvement to such form) shall, at the time of making that request, pay a \$1,000 change fee, which fee shall be deposited into the Late Payment Account maintained under the ISO New England Billing Policy.

A. Shares of Registered or Private Mutual Funds in a Shareholder Account

Shares of registered or private mutual funds in a shareholder account are an acceptable form of financial assurance provided that the Posting Entity providing such collateral (i) completes all required documentation to open an account with the financial institution selected by the ISO, after consultation with the NEPOOL Budget and Finance Subcommittee, (ii) completes and executes a security agreement ("Security Agreement") in the form of Attachment 1 to the ISO New England Financial Assurance Policy and is in compliance with the Security Agreement, and (iii) completes and executes a Control Agreement in the form posted on the ISO website and is in compliance with the Control Agreement. Any material variation from the form of Security Agreement included in Attachment 1 to the ISO New England Financial Assurance Policy or the form of Control Agreement posted on the ISO website must be approved by the ISO after consultation with the NEPOOL Budget and Finance Subcommittee and, in the case of the Security Agreement, filed with the Commission. To the extent any amount of shares contained in the shareholder account is no longer required hereunder, the ISO shall return such collateral to the Posting Entity providing it within four (4) Business Days of a request to do so.

If the amount of collateral maintained in the shareholder account is below the required level (including by reason of losses on investments), the Posting Entity shall immediately replenish or increase the amount to the required level. The collateral will be held in an account maintained in the name of the Posting Entity and invested in the investment selected by that Posting Entity from a menu of investment options listed at the time on the ISO's website, which menu will be approved by the NEPOOL Budget and Finance Subcommittee, with discounts applied to the investments in certain of such options if and as determined by the NEPOOL Budget and Finance Subcommittee. If a Posting Entity does not select an investment for its collateral, that collateral will be invested in the "default" investment option selected by the ISO and approved by the NEPOOL Budget and Finance Subcommittee from time to time. Any dividends and distribution on such investment will accrue to the benefit of the Posting Entity. The ISO may sell or otherwise liquidate such investments at its discretion to meet the Posting Entity's obligations to the ISO. In no event will the ISO or NEPOOL or any NEPOOL Participant have any liability with respect to the investment of collateral under this Section X.A.

Notwithstanding the foregoing, an investment in shares of a registered fund in a shareholder account shall not be an acceptable form of financial assurance for a Posting Entity that is not a U.S. Person, as defined in Regulation S under the Securities Act of 1933, as amended, unless the financial institution selected by the ISO allows such Posting Entity to invest in the investment options listed at the time on the ISO's website or the Posting Entity is invested in the investment options listed on the ISO's website as of March 19, 2015.

B. Letter of Credit

An irrevocable standby letter of credit provides an acceptable form of financial assurance to the ISO. For purposes of the ISO New England Financial Assurance Policy, the letter of credit shall be valued at \$0 at the end of the Business Day that is 30 days prior to the termination of such letter of credit. If the letter of credit amount is below the required level, the Posting Entity shall immediately replenish or increase the letter of credit amount or obtain a substitute letter of credit. The account party on a letter of credit must be either the Posting Entity whose obligations are secured by that letter of credit or an Affiliate of that Posting Entity.

1. Requirements for Banks

Each bank issuing a letter of credit that serves as financial assurance must meet the requirements of this Section X.B.1. Each such bank must be on the ISO's "List of Eligible Letter of Credit Issuers" which shall be established pursuant to this Section X.B.1. The ISO will post the current List of Eligible Letter of Credit Issuers on its website, and update that List and posting no less frequently than quarterly; provided that if a bank is removed from the List of Eligible Credit Issuers, the ISO shall update the List and provide notice to the NEPOOL Budget & Finance Subcommittee. To be included on the List of Eligible Letter of Credit Issuers, the bank must be organized under the laws of the United States or any state thereof, or be the United States branch of a foreign bank and either: (i) be recognized by the Chicago Mercantile Exchange ("CME") as an approved letter of credit bank; or (ii) have a minimum long-term debt rating (or, if the bank does not have minimum long-term debt rating, than a minimum corporate rating) of "A-" by S&P, or "A3" by Moody's or "A-" by Fitch so long as its letter of credit is confirmed by a bank that is recognized by CME as an approved letter of credit issuer as described in clause (i) above; or (iii) have a minimum long-term debt rating (or, if the bank does not have minimum long-term debt rating, than a minimum corporate rating) of "A-" by S&P, or "A3" by Moody's, or "A-" by Fitch and be approved by the ISO in its sole discretion (the ISO will promptly advise the NEPOOL Budget and Finance Subcommittee of any additional bank approved by it under this provision). Because the ratings described in clauses (ii) and (iii) are minimum ratings, a bank will not be considered to have satisfied the requirement of those clauses if any applicable rating from the Rating Agencies falls below the levels listed in those clauses. In addition, no Posting Entity may provide a letter of credit that has been issued or confirmed by a bank that is an Affiliate of that Market Participant. If a bank that is included on the List of Eligible Letter of Credit Issuers fails to satisfy any of the criteria set forth above or if the ISO determines in its sole discretion that despite satisfying any of the criteria set forth above, accepting a letter of credit from a bank on the List of Eligible Letter of Credit Issuers presents an unreasonable risk that a bank may fail to honor the terms of such letter of credit, the applicable Posting Entity will have five (5) Business Days from the date on which the ISO provides notice of such failure or removal to replace the letter of credit with a letter of credit from a bank satisfying those criteria or provide other financial assurance satisfying the requirements of the ISO New England Financial Assurance

Policy. The ISO may extend that cure period to twenty (20) Business Days in its sole discretion. The ISO must promptly advise the NEPOOL Budget and Finance Subcommittee of any extension of a cure period beyond five (5) Business Days under this provision. No letter of credit bank may issue or confirm letters of credit under the ISO New England Financial Assurance Policy in an amount exceeding either: (i) \$100 million in the aggregate for any single Posting Entity; or (ii) \$150 million in aggregate for a group of Posting Entities that are Affiliates. If a bank is removed from the List of Eligible Letter of Credit Issuers based on the ISO's determination that there is an unreasonable risk that a bank may fail to honor the terms of such letter of credit, the ISO in its sole discretion may reinstate eligibility, provided that the bank otherwise meets the conditions of this Section X.B.1.

The following provisions shall apply when a bank fails to honor the terms of one or more letters of credit issued or confirmed by the bank in favor of the ISO: (i) if the bank fails to honor the terms of one letter of credit in a rolling seven hundred and thirty day period, then the ISO will issue a notice of such failure to the NEPOOL Budget and Finance Subcommittee, to all members and alternates of the Participants Committee, to the New England governors and utility regulatory agencies and to the billing and credit contracts for all Market Participants; (ii) if the bank fails to honor either the terms of one letter of credit twice or the terms of two letters of credit in a rolling seven hundred and thirty day period, then (A) the ISO shall issue a notice described in subsection (i) above, (B) the bank will no longer be eligible to issue or confirm letters of credit in favor of the ISO, (C) any letters of credit issued or confirmed by such bank in favor of the ISO will not be renewed, and (D) any letters of credit issued or confirmed by such bank in favor of the ISO must be replaced with another acceptable form of financial assurance within five (5) Business Days from the date on which the ISO provides notice of such failure (the ISO may extend that cure period to twenty (20) Business Days in its sole discretion). Notwithstanding the foregoing, the ISO in its sole discretion may reinstate eligibility after not less than two years from the loss of eligibility, provided that the bank otherwise meets the conditions of this Section X.B.1.

Any letter of credit provided for a new Posting Entity for the purpose of covering the Initial Market Participant Financial Assurance Requirement must have a minimum term of 120 days.

2. Form of Letter of Credit

Attachment 2 provides a generally acceptable sample “clean” letter of credit, and all letters of credit provided by Posting Entities shall be in this form (with only minor, non-material changes), unless a variation therefrom is approved by the ISO after consultation with the NEPOOL Budget and Finance Subcommittee and filed with the Commission. Notwithstanding the foregoing, Posting Entities that have provided a letter of credit in a form that was previously acceptable (e.g., under a prior version of Attachment 2) shall not be required to resubmit such letter of credit until the earlier of (a) the amendment or expiration of such letter of credit, in which case Posting Entity shall be required to provide a Letter of Credit in the Form of Attachment 2, or (b) December 31, 2021. Any letter of credit provided for a new Posting Entity must have a minimum term of 120 days. All costs incurred by the ISO in collecting on a letter of credit provided under the ISO New England Financial Assurance Policy shall be paid, or reimbursed to the ISO, by the Posting Entity providing that letter of credit.

C. Special Provisions for Provisional Members

Notwithstanding any other provision of the ISO New England Financial Assurance Policy to the contrary, due to the temporary nature of a Market Participant’s status as a Provisional Member and the relatively small amounts due from Provisional Members, any Provisional Member required to provide additional financial assurance under the ISO New England Financial Assurance Policy may only satisfy the portion of that requirement attributable to Participant Expenses under the RNA by providing a cash deposit in accordance with Section X.A. Provisional Members will not have any other Non-Hourly Requirements under the ISO New England Financial Assurance Policy. If a Provisional Member uses a standing instruction to pay its Invoices pursuant to the ISO New England Billing Policy, in order to avoid a default and/or a Late Payment Charge, the total amount of the cash deposited by that Provisional Member should be equal to the sum of (x) the Provisional Member’s Financial Assurance Requirement under the ISO New England Financial Assurance Policy that is attributable to Participant Expenses under the RNA and (y) the amount due from that Provisional Member on its next Invoice under that ISO New England Billing Policy (not including the amount of any Qualification Process Cost Reimbursement Deposit (including the annual true-up of that amount) due from such Provisional Member). Provisional Members are also required to

satisfy all other provisions of the ISO New England Financial Assurance Policy, and any additional financial assurance required to be provided by a Provisional Member that is not attributable to Participant Expenses may be satisfied by providing a cash deposit or letter of credit in accordance with this Section X but shall not be satisfied through the provision of the cash deposit described in this Section X.C. Without limiting or reducing in any way the requirements of the ISO New England Financial Assurance Policy that apply to a Provisional Member, the amount of the cash deposit initially provided by a Provisional Member that is attributable to Participant Expenses (including any amounts provided in connection with the standing instruction under the ISO New England Billing Policy described above) shall be at least \$2,500, and each Provisional Member will replenish that cash deposit to at least that \$2,500 level on December 31 of each year.

XI. MISCELLANEOUS PROVISIONS

A. Obligation to Report Material Adverse Changes

Each Market Participant and each Non-Market Participant Transmission Customer is responsible for informing the ISO in writing within five (5) Business Days of any Material Adverse Change in its financial status. A “Material Adverse Change” in financial status includes, but is not limited to, the following: a downgrade to below an Investment Grade Rating by any Rating Agency; being placed on credit watch with negative implication by any Rating Agency if the Market Participant or Non-Market Participant Transmission Customer does not have an Investment Grade Rating; a bankruptcy filing or other insolvency; a report of a significant quarterly loss or decline of earnings; the resignation of key officer(s); the sanctioning of the Market Participant or Non-Market Participant Transmission Customer or any of its Principals imposed by the Federal Energy Regulatory Commission, the Securities and Exchange Commission, the Commodity Futures Trading Commission, any exchange monitored by the National Futures Association, or any state entity responsible for regulating activity in energy markets; the filing of a material lawsuit that could materially adversely impact current or future financial results; or a significant change in the Market Participant’s or Non-Market Participant Transmission Customer’s market capitalization. A Market Participant’s or Non-Market Participant Transmission Customer’s failure to timely disclose a Material Adverse Change in its financial status may result in termination proceedings by the ISO. If the ISO determines that there is a Material Adverse Change in the financial condition

of a Market Participant- or Non-Market Participant Transmission Customer, then the ISO shall provide to that Market Participant or Non-Market Participant Transmission Customer a signed written notice two Business Days before taking any of the actions described below. The notice shall explain the reasons for the ISO's determination of the Material Adverse Change. After providing notice, the ISO may take one or more of the following actions: (i) require that, within two Business Days of receipt of the notice of Material Adverse Change, the Market Participant or Non-Market Participant Transmission Customer provide one of the forms of financial assurance described in Section X of the ISO New England Financial Assurance Policy and/or an additional amount of financial assurance in one of the forms of financial assurance described in Section X of the ISO New England Financial Assurance Policy; (ii) require that the Market Participant or Non-Market Participant Transmission Customer cease one or more transactions in the New England Markets; or (iii) require that the Market Participant or Non-Market Participant Transmission Customer take other measures to restore the ISO's confidence in its ability to safely transact in the New England Markets. Any additional amount of financial assurance required as a result of a Material Adverse Change shall be sufficient, as reasonably determined by the ISO, to cover the Market Participant's or Non-Market Participant Transmission Customer's potential settled and unsettled liability or obligation, provided, however, that if the additional amount of financial assurance required as a result of a Material Adverse Change is equal to or greater than \$25 million, then the Chief Financial Officer shall first consult, to the extent practicable, with the ISO's Chief Executive Officer, Chief Operating Officer, and General Counsel. If the Market Participant or Non-Market Participant Transmission Customer fails to comply with any of the requirements imposed as a result of a Material Adverse Change, then the ISO may initiate termination proceedings against the Market Participant or Non-Market Participant Transmission Customer.

B. Weekly Payments

A Market Participant or Non-Market Participant Transmission Customer may request that, in lieu of providing the entire amount of one of the financial assurances set forth above to satisfy its Financial Assurance Requirement, a weekly billing schedule be implemented for its Non-Hourly Charges and its Transmission Charges. The ISO may, in its discretion, agree to such a request; provided, however, that any weekly billing arrangement for Non-Hourly Charges and Transmission Charges will terminate no more

than six (6) months after the date on which such arrangement begins unless the Market Participant or Non-Market Participant Transmission Customer requests an extension of such arrangement and demonstrates to the ISO's satisfaction in its sole discretion that the termination of such arrangement and compliance with the other provisions of the ISO New England Financial Assurance Policy (including providing the full amount of its Financial Assurance Requirement) will impose a substantial hardship on the Market Participant or Non-Market Participant Transmission Customer. Such demonstration of a substantial hardship shall be made every six (6) months after the initial demonstration, and a Market Participant's or Non-Market Participant Transmission Customer's weekly billing arrangement for Non-Hourly Charges and Transmission Charges will be terminated if it fails to demonstrate to the ISO's satisfaction in its sole discretion at any such six (6) month interval that compliance with the other provisions of the ISO New England Financial Assurance Policy will impose a substantial hardship on it. If the ISO agrees to implement a weekly billing schedule for Non-Hourly Charges and Transmission Charges for a Market Participant or Non-Market Participant Transmission Customer, the Market Participant or Non-Market Participant Transmission Customer shall be billed weekly for such Non-Hourly Charges and Transmission Charges in accordance with the ISO New England Billing Policy. The Market Participant or Non-Market Participant Transmission Customer shall pay with respect to each weekly Invoice for Non-Hourly Charges and Transmission Charges an administrative fee, determined by the ISO, to reimburse the ISO for the costs it incurs as a result of that Market Participant's or Non-Market Participant Transmission Customer's weekly billing arrangement.

If a weekly billing schedule is implemented for a Market Participant's or Non-Market Participant Transmission Customer's Non-Hourly Charges and Transmission Charges under this Section XI.B, the Market Participant or Non-Market Participant Transmission Customer may be required to provide the full amount of its Financial Assurance Requirement at any time if the Market Participant or Non-Market Participant Transmission Customer fails to pay when due any weekly Invoice. In addition, upon the termination of a Market Participant's or Non-Market Participant Transmission Customer's weekly billing arrangement for Non-Hourly Charges and Transmission Charges, the Market Participant or Non-Market Participant Transmission Customer shall either satisfy the applicable rating requirements set forth herein, satisfy the Credit

Threshold, or provide the full amount of one of the other forms of financial assurance set forth herein.

C. Use of Transaction Setoffs

In the event that a Market Participant or Non-Market Participant Transmission Customer has failed to satisfy its Financial Assurance Requirement hereunder, the ISO may retain payments due to such Market Participant or Non-Market Participant Transmission Customer, up to the amount of such Market Participant's or Non-Market Participant Transmission Customer's unsatisfied Financial Assurance Requirement, as a cash deposit securing such Market Participant's or Non-Market Participant Transmission Customer's obligations to the ISO, NEPOOL, the Market Participants, the PTOs and the Non-Market Participant Transmission Customers, provided, however, that a Market Participant or Non-Market Participant Transmission Customer will not be deemed to have satisfied its Financial Assurance Requirement under the ISO New England Financial Assurance Policy because the ISO is retaining amounts due to it hereunder unless such Market Participant or Non-Market Participant Transmission Customer has satisfied all of the requirements of Section X with respect to such amounts.

D. Reimbursement of Costs

Each Market Participant or Non-Market Participant Transmission Customer that fails to perform any of its obligations under the Tariff, including without limitation those arising under the ISO New England Financial Assurance Policy and the ISO New England Billing Policy, shall reimburse the ISO, NEPOOL and each Market Participant, PTO and Non-Market Participant Transmission Customer for all of the fees, costs and expenses that they incur as a result of such failure.

E. Notification of Default

In the event that a Market Participant or Non-Market Participant Transmission Customer fails to comply with the ISO New England Financial Assurance Policy (a "Financial Assurance Default"), such failure continues for at least two days and notice of that failure has not previously been given, the ISO may (but shall not be required to) notify such Market Participant or Non-Market Participant Transmission Customer in writing, electronically and by first class mail sent in each case to such Market Participant's or Non-Market Participant Transmission Customer's billing and credit contacts or such

Market Participant's member or alternate member on the Participants Committee (it being understood that the ISO will use reasonable efforts to contact all three where applicable), of such Financial Assurance Default. Either simultaneously with the giving of the notice described in the preceding sentence or within two days thereafter (unless the Financial Assurance Default is cured during such period), the ISO shall notify each other member and alternate on the Participants Committee and each Market Participant's and Non-Market Participant Transmission Customer's billing and credit contacts of the identity of the Market Participant or Non-Market Participant Transmission Customer receiving such notice, whether such notice relates to a Financial Assurance Default, and the actions the ISO plans to take and/or has taken in response to such Financial Assurance Default. In addition to the notices provided for herein, the ISO will provide any additional information required under the ISO New England Information Policy.

F. Remedies Not Exclusive

No remedy for a Financial Assurance Default is or shall be deemed to be exclusive of any other available remedy or remedies. Each such remedy shall be distinct, separate and cumulative, shall not be deemed inconsistent with or in exclusion of any other available remedy, and shall be in addition to and separate and distinct from every other remedy. A Financial Assurance Default may result in suspension of the Market Participant or Non-Market Participant Transmission Customer or the commencement of termination proceedings by the ISO.

G. Inquiries and Contests

A Market Participant or Non-Market Participant Transmission Customer may request a written explanation of the ISO's determination of its Market Credit Limit, Transmission Credit Limit, Financial Assurance Requirement or Transmission Obligations, including any change thereto, by submitting that request in writing to the ISO's Credit Department, either by email at CreditDepartment@iso-ne.com or by facsimile at (413) 540-4569. That request must include the Market Participant's customer identification number, the name of the Market Participant or Non-Market Participant Transmission Customer and the specific information for which the Market Participant or Non-Market Participant Transmission Customer would like an explanation and must be submitted by the designated credit contact for that Market Participant or Non-Market Participant Transmission Customer as on file with the ISO. In addition, since Financial Assurance

Requirements are updated at least daily, any request for an explanation relating to the calculation of, or a change in, a Financial Assurance Requirement must be submitted on the same day as that calculation or change. The ISO's response to any request under this Section XI.G shall include an explanation of how the applicable calculation or determination was performed using the formulas and criteria in the ISO New England Financial Assurance Policy. A Market Participant or Non-Market Participant Transmission Customer may contest any calculation or determination by the ISO under the ISO New England Financial Assurance Policy using the dispute resolution provisions of Section I.6 of the Tariff.

H. Forward Contract/Swap Agreement

All FTR transactions constitute "forward contracts" and/or "swap agreements" within the meaning of the United States Bankruptcy Code (the "Bankruptcy Code"), and the ISO shall be deemed to be a "forward contract merchant" and/or "swap participant" within the meaning of the Bankruptcy Code for purposes of those FTR transactions. Pursuant to the ISO New England Financial Assurance Policy, the ISO Tariff and the Market Participant Service Agreement with each Market Participant, the ISO already has, and shall continue to have, the following rights (among other rights) in respect of a Market Participant default under those documents (including the ISO New England Financial Assurance Policy and the ISO New England Billing Policy): A) the right to terminate and/or liquidate any FTR transaction held by that Market Participant; B) the right to immediately proceed against any additional financial assurance provided by that Market Participant; C) the right to set off any obligations due and owing to that Market Participant pursuant to any forward contract, swap agreement or similar agreement against any amounts due and owing by that Market Participant pursuant to any forward contract, swap agreement or similar agreement, such arrangement to constitute a "master netting agreement" within the meaning of the Bankruptcy Code; and D) the right to suspend that Market Participant from entering into future transactions in the FTR system. For the avoidance of doubt, upon the commencement of a voluntary or involuntary proceeding for a Market Participant under the Bankruptcy Code, and without limiting any other rights of the ISO or obligations of any Market Participant under the Tariff (including the ISO New England Financial Assurance Policy and the ISO New England Billing Policy) or any Market Participant Service Agreement, the ISO may exercise any of its rights against such Market Participant, including, without limitation 1) the right to

terminate and/or liquidate any FTR transaction held by that Market Participant, 2) the right to immediately proceed against any additional financial assurance provided by that Market Participant, 3) the right to set off any obligations due and owing to that Market Participant pursuant to any forward contract, swap agreement and/or master netting agreement against any amounts due and owing by that Market Participant with respect to an FTR transaction including as a result of the actions taken by the ISO pursuant to 1) above, and 4) the right to suspend that Market Participant from entering into future transactions in the FTR system.

ATTACHMENT 1
SECURITY AGREEMENT

THIS SECURITY AGREEMENT (the “Security Agreement”) is effective as of this [__] day of [____], 20[___], by and between [INSERT NAME], a [____], having its principal office and place of business at [_____] (the “Debtor”), and ISO New England Inc., a Delaware nonprofit corporation (the “Secured Party” and collectively with the Debtor, the “Parties”).

WITNESSETH:

In consideration of the mutual promises and covenants herein contained, the Parties agree as follows:

1. Definitions.

a. In this Security Agreement:

- i. “Code” shall mean the Uniform Commercial Code, as enacted in the State of Connecticut and as amended from time to time.
- ii. “Collateral” shall mean (a) all cash provided, submitted, wired or otherwise transferred or deposited by the Debtor to or with the Secured Party or a financial institution, investment firm, or other designee selected by the Secured Party or acting on the Secured Party’s behalf, to hold or invest such cash deposit, from time to time in satisfaction of, pursuant to, or in compliance with, the ISO Financial Assurance Policy; (b) all securities or other investment property (as defined in the Code) of the Debtor, whether or not purchased with such cash deposit, submitted, wired or otherwise transferred, deposited or maintained by the Debtor to or with the Secured Party or its designee, in each case in satisfaction of, pursuant to, or in compliance with, the ISO Financial Assurance Policy; (c) all other property of Debtor submitted, pledged, assigned or otherwise transferred by the Debtor to the Secured Party or its designee, in each case, in satisfaction of, pursuant to, or in compliance with, the ISO Financial Assurance Policy; and (d) the products and proceeds of each of the foregoing.
- iii. “ISO Financial Assurance Policy” shall mean the Financial Assurance Policy in the Tariff, as amended, supplemented or restated from time to time, including but not limited to the Financial Assurance Policy in Exhibit 1A to Section I of the Tariff.

- iv. “Tariff” shall mean the ISO New England Inc. Transmission, Markets and Services Tariff, as filed with the Federal Energy Regulatory Commission, as amended, supplemented and/or restated from time to time.
 - v. “Obligations” shall mean any and all amounts due from Debtor from time to time under the Tariff.
 - vi. “Market Participants” shall have the meaning set forth in the Tariff.
 - b. Any capitalized term not defined herein that is defined in the Code shall have the meaning as defined in the Code.
2. Security Interest. To secure the payment of all Obligations of the Debtor, Debtor hereby grants and conveys to the Secured Party a security interest in the Collateral. The Debtor hereby irrevocably authorizes the Secured Party at any time and from time to time to file in any applicable filing office any initial financing statements and amendments thereto that provide any information required by part 5 of Article 9 of the Code for the sufficiency or filing office acceptance of any financing statement or amendment.
3. Debtor’s Covenants. The Debtor warrants, covenants and agrees with the Secured Party as follows:
- a. The Debtor shall perform all of the Debtor’s obligations under this Security Agreement according to its terms.
 - b. The Debtor shall defend the title to the Collateral against any and all persons and against all claims.
 - c. The Debtor shall at any time and from time to time take such steps as the Secured Party may reasonably request to ensure the continued perfection and priority of the Secured Party’s security interest in the Collateral and the preservation of its rights therein.
 - d. The Debtor acknowledges and agrees that this Security Agreement grants, and is intended to grant, a security interest in the Collateral. If the Debtor is a corporation, limited liability company, limited partnership or other Registered Organization (as that term is defined in Article 9 of the Uniform Commercial Code as in effect in Connecticut) the Debtor shall, at its expense, furnish to Secured Party a certified copy of Debtor’s organization documents verifying its correct legal name or, at Secured Party’s election, shall permit the Secured Party to obtain such certified copy at Debtor’s expense. From

time to time at Secured Party's election, the Secured Party may obtain a certified copy of Debtor's organization documents and a search of such Uniform Commercial Code filing offices, as it shall deem appropriate, at Debtor's expense, to verify Debtor's compliance with the terms of this Security Agreement.

- e. The Debtor authorizes the Secured Party, if the Debtor fails to do so, to do all things required of the Debtor herein and charge all expenses incurred by the Secured Party to the Debtor together with interest thereon, which expenses and interest will be added to the Obligations.
4. Debtor's Representations and Warranties. The Debtor represents and warrants to the Secured Party as follows:
- a. The exact legal name of the Debtor is as first stated above.
 - b. Except for the security interest of the Secured Party, Debtor is the owner of the Collateral free and clear of any encumbrance of any nature.
5. Non-Waiver. Waiver of or acquiescence in any default by the Debtor or failure of the Secured Party to insist upon strict performance by the Debtor of any warranties, covenants, or agreements in this Security Agreement shall not constitute a waiver of any subsequent or other default or failure. No failure to exercise or delay in exercising any right, power or remedy of the Secured Party under this Security Agreement shall operate as a waiver thereof, nor shall any partial exercise of any right, power or remedy preclude any other or further exercise thereof or the exercise of any other right, power or remedy. The failure of the Secured Party to insist upon the strict observance or performance of any provision of this Security Agreement shall not be construed as a waiver or relinquishment of such provision. The rights and remedies provided herein are cumulative and not exclusive of any other rights or remedies provided at law or in equity.
6. Events of Default. Any one of the following shall constitute an "Event of Default" hereunder by the Debtor:
- a. Failure by the Debtor to comply with or perform any provision of this Security Agreement or to pay any Obligation; or

- b. Any representation or warranty made or given by the Debtor in connection with this Security Agreement proves to be false or misleading in any material respect; or
 - c. Any part of the Collateral is attached, seized, subjected to a writ or distress warrant, or is levied upon, or comes within the possession of any receiver, trustee, custodian or assignee for the benefit of creditors.
- 7. Remedy upon the Occurrence of an Event of Default. Upon the occurrence of any Event of Default the Secured Party shall, immediately and without notice, be entitled to use, sell, or otherwise liquidate the Collateral to pay all Obligations owed by the Debtor.
- 8. Attorneys' Fees, etc. Upon the occurrence of any Event of Default, the Secured Party's reasonable attorneys' fees and the legal and other expenses for pursuing, receiving, taking, keeping, selling, and liquidating the Collateral and enforcing the Security Agreement shall be chargeable to the Debtor.
- 9. Other Rights.
 - a. In addition to all rights and remedies herein and otherwise available at law or in equity, upon the occurrence of an Event of Default, the Secured Party shall have such other rights and remedies as are set forth in the Tariff and ISO Financial Assurance Policy.
 - b. Notwithstanding the provisions of the ISO New England Information Policy, as amended, supplemented or restated from time to time (the "ISO New England Information Policy"), Debtor hereby (i) authorizes the Secured Party to disclose any information concerning Debtor to any court, agency or entity which is necessary or desirable, in the sole discretion of the Secured Party, to establish, maintain, perfect or secure the Secured Party's rights and interest in the Collateral (the "Debtor Information"); and (ii) waives any rights it may have under the ISO New England Information Policy to prevent, impair or limit the Secured Party from disclosing such information concerning the Debtor.
- 10. PRE-JUDGMENT REMEDY. DEBTOR ACKNOWLEDGES THAT THIS SECURITY AGREEMENT AND THE UNDERLYING TRANSACTIONS GIVING RISE HERETO CONSTITUTE COMMERCIAL BUSINESS TRANSACTIONS WITHIN THE STATE OF CONNECTICUT. IN THE EVENT OF ANY LEGAL ACTION BETWEEN DEBTOR AND

THE SECURED PARTY HEREUNDER, DEBTOR HEREBY EXPRESSLY WAIVES ANY RIGHTS WITH REGARD TO NOTICE, PRIOR HEARING AND ANY OTHER RIGHTS IT MAY HAVE UNDER THE CONNECTICUT GENERAL STATUTES, CHAPTER 903a, AS NOW CONSTITUTED OR HEREAFTER AMENDED, OR OTHER STATUTE OR STATUTES, STATE OR FEDERAL, AFFECTING PREJUDGMENT REMEDIES, AND THE SECURED PARTY MAY INVOKE ANY PREJUDGMENT REMEDY AVAILABLE TO IT, INCLUDING, BUT NOT LIMITED TO, GARNISHMENT, ATTACHMENT, FOREIGN ATTACHMENT AND REPLEVIN, WITH RESPECT TO ANY TANGIBLE OR INTANGIBLE PROPERTY (WHETHER REAL OR PERSONAL) OF DEBTOR TO ENFORCE THE PROVISIONS OF THIS SECURITY AGREEMENT, WITHOUT GIVING DEBTOR ANY NOTICE OR OPPORTUNITY FOR A HEARING.

11. WAIVER OF JURY TRIAL. THE DEBTOR AND THE SECURED PARTY HEREBY EACH KNOWINGLY, VOLUNTARILY AND IRREVOCABLY WAIVES THE RIGHT TO TRIAL BY JURY IN ANY ACTION, DEFENSE, COUNTERCLAIM, CROSSCLAIM AND/OR ANY FORM OF PROCEEDING BROUGHT IN CONNECTION WITH THIS SECURITY AGREEMENT OR RELATING TO ANY OBLIGATIONS SECURED HEREBY.
12. Additional Waivers. Demand, presentment, protest and notice of nonpayment are hereby waived by Debtor. Debtor also waives the benefit of all valuation, appraisement and exemption laws.
13. Binding Effect. The terms, warranties and agreements herein contained shall bind and inure to the benefit of the respective Parties hereto, and their respective legal representatives, successors and assigns.
14. Assignment. The Secured Party may, upon notice to the Debtor, assign without limitation its security interest in the Collateral.
15. Amendment. This Security Agreement may not be altered or amended except by an agreement in writing signed by the Parties.
16. Term.

- a. This Security Agreement shall continue in full force and effect until all Obligations owed by the Debtor have been paid in full.
 - b. No termination of this Security Agreement shall in any way affect or impair the rights and liabilities of the Parties hereto relating to any transaction or events prior to such termination date, or to the Collateral in which the Secured Party has a security interest, and all agreements, warranties and representations of the Debtor shall survive such termination.
17. Choice of Law. The laws of the State of Connecticut shall govern the rights and duties of the Parties herein contained without giving effect to any conflict-of-law principles.

IN WITNESS WHEREOF, the Parties have signed and sealed this Security Agreement as of the day and year first above written.

[INSERT NAME]

By: _____

Name:

Title:

ISO NEW ENGLAND INC.

By: _____

Name:

Title:

ATTACHMENT 2
SAMPLE STANDBY LETTER OF CREDIT

[DATE PROVIDED]

IRREVOCABLE STANDBY LETTER OF CREDIT NO.

[EXPIRATION DATE]

WE DO HEREBY ISSUE THIS IRREVOCABLE NON-TRANSFERABLE STANDBY LETTER OF CREDIT BY ORDER OF AND FOR THE ACCOUNT OF [POSTING ENTITY OR AFFILIATE OF POSTING ENTITY ON BEHALF OF POSTING ENTITY] (“ACCOUNT PARTY”) IN FAVOR OF ISO NEW ENGLAND INC. (“ISO” OR “BENEFICIARY”) (“STANDBY LETTER OF CREDIT”).

THIS STANDBY LETTER OF CREDIT IS IRREVOCABLE AND IS ISSUED, PRESENTABLE AND PAYABLE AND WE GUARANTY TO THE DRAWERS, ENDORSERS AND BONA FIDE HOLDERS OF THIS STANDBY LETTER OF CREDIT THAT DRAFTS UNDER AND IN COMPLIANCE WITH THE TERMS OF THIS STANDBY LETTER OF CREDIT WILL BE HONORED ON PRESENTATION OF THIS STANDBY LETTER OF CREDIT.

THIS STANDBY LETTER OF CREDIT IS AVAILABLE IN ONE OR MORE DRAFTS AND MAY BE DRAWN HEREUNDER FOR THE ACCOUNT OF THE ACCOUNT PARTY UP TO AN AMOUNT NOT EXCEEDING US\$ _____.00 (UNITED STATES DOLLARS _____ AND 00/100) .

THIS STANDBY LETTER OF CREDIT IS DRAWN AGAINST BY PRESENTATION TO US AT OUR OFFICE LOCATED AT THE FOLLOWING ADDRESS:

A DRAWING CERTIFICATE SIGNED BY A PURPORTED OFFICER OR AUTHORIZED AGENT OF THE ISO AND DATED THE DATE OF PRESENTATION CONTAINING THE FOLLOWING STATEMENT:

“THE UNDERSIGNED HEREBY CERTIFIES TO [BANK] (“ISSUER”), WITH REFERENCE TO IRREVOCABLE NON-TRANSFERABLE STANDBY LETTER OF CREDIT NO. [-----] ISSUED BY ISSUER IN FAVOR OF ISO NEW ENGLAND INC. (“ISO”), THAT [POSTING ENTITY] HAS FAILED TO PAY THE ISO, IN ACCORDANCE WITH THE TERMS AND PROVISIONS OF THE TARIFF FILED BY THE ISO, AND THUS THE ISO IS DRAWING UPON THE STANDBY LETTER OF CREDIT IN AN AMOUNT EQUAL TO \$ _____.”

IF PRESENTATION OF ANY DRAWING CERTIFICATE IS MADE ON A BUSINESS DAY AND SUCH PRESENTATION IS MADE AT OUR COUNTERS ON OR BEFORE 10:00 A.M. _____ TIME, WE SHALL SATISFY SUCH DRAWING REQUEST ON THE SAME BUSINESS DAY. IF THE DRAWING CERTIFICATE IS RECEIVED AT OUR COUNTERS AFTER 10:00 A.M. _____ TIME, WE WILL SATISFY SUCH DRAWING REQUEST ON THE NEXT BUSINESS DAY. FOR THE PURPOSES OF THIS SECTION, A BUSINESS DAY MEANS A DAY, OTHER THAN A SATURDAY OR SUNDAY, ON WHICH THE FEDERAL RESERVE BANK OF NEW YORK IS NOT AUTHORIZED OR REQUIRED TO BE CLOSED. DISBURSEMENTS SHALL BE IN ACCORDANCE WITH THE INSTRUCTIONS OF THE ISO.

THE FOLLOWING TERMS AND CONDITIONS APPLY:

THIS STANDBY LETTER OF CREDIT SHALL EXPIRE AT THE CLOSE OF BUSINESS [DATE] [AT LEAST 120 DAYS AFTER ISSUANCE FOR NEW POSTING ENTITIES].

THE AMOUNT WHICH MAY BE DRAWN BY YOU UNDER THIS STANDBY LETTER OF CREDIT SHALL BE AUTOMATICALLY REDUCED BY THE AMOUNT OF ANY DRAWINGS HEREUNDER AT OUR COUNTERS. ANY NUMBER OF PARTIAL DRAWINGS ARE PERMITTED FROM TIME TO TIME HEREUNDER.

ALL COMMISSIONS AND CHARGES WILL BE BORNE BY THE ACCOUNT PARTY.

THIS STANDBY LETTER OF CREDIT IS NOT TRANSFERABLE OR ASSIGNABLE. THIS STANDBY LETTER OF CREDIT DOES NOT INCORPORATE AND SHALL NOT BE DEEMED MODIFIED, AMENDED OR AMPLIFIED BY REFERENCE TO ANY

DOCUMENT, INSTRUMENT OR AGREEMENT (A) THAT IS REFERRED TO HEREIN (EXCEPT FOR THE ISP, AS DEFINED BELOW) OR (B) IN WHICH THIS STANDBY LETTER OF CREDIT IS REFERRED TO OR TO WHICH THIS STANDBY LETTER OF CREDIT RELATES.

THIS STANDBY LETTER OF CREDIT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE INTERNATIONAL STANDBY PRACTICES ("ISP98") OF THE INTERNATIONAL CHAMBER OF COMMERCE PUBLICATION NO. 590, INCLUDING ANY AMENDMENTS, MODIFICATIONS, OR REVISIONS THEREOF (THE "ISP"), EXCEPT TO THE EXTENT THAT THE TERMS HEREOF ARE INCONSISTENT WITH THE PROVISIONS OF THE ISP, IN WHICH CASE THE TERMS OF THIS STANDBY LETTER OF CREDIT SHALL GOVERN. THIS STANDBY LETTER OF CREDIT SHALL BE GOVERNED BY THE INTERNAL LAWS OF THE COMMONWEALTH OF MASSACHUSETTS TO THE EXTENT THAT THE TERMS ARE NOT GOVERNED BY THE ISP.

THIS STANDBY LETTER OF CREDIT MAY NOT BE AMENDED, CHANGED OR MODIFIED WITHOUT THE EXPRESS WRITTEN CONSENT OF THE ISO AND ISSUER.

WE HEREBY ENGAGE WITH YOU THAT DOCUMENTS DRAWN UNDER AND IN COMPLIANCE WITH THE TERMS OF THIS STANDBY LETTER OF CREDIT SHALL BE DULY HONORED UPON PRESENTATION AS SPECIFIED AND WE REPRESENT THAT THE ACCOUNT PARTY IS NOT AN AFFILIATE OF THE ISSUER.

PRESENTATION OF ANY DRAWING CERTIFICATE UNDER THIS STANDBY LETTER OF CREDIT MAY BE SENT TO US BY COURIER, CERTIFIED MAIL, REGISTERED MAIL, OR FACSIMILE (WITH A CONFIRMING COPY OF SUCH FACSIMILE SENT AFTER THE DRAWING BY CERTIFIED MAIL TO THE ADDRESS SET FORTH BELOW; PROVIDED HOWEVER, THAT THE CONFIRMING COPY SHALL NOT BE A PREREQUISITE FOR US TO HONOR ANY PRESENTATION OTHERWISE MADE IN ACCORDANCE WITH THE TERMS OF THIS STANDBY LETTER OF CREDIT), OR SUCH OTHER ADDRESS AS MAY HEREAFTER BE FURNISHED BY US. OTHER NOTICES CONCERNING THIS STANDBY LETTER OF CREDIT MAY BE SENT BY SIMILAR COMMUNICATIONS FACILITY TO THE RESPECTIVE

ADDRESSES SET FORTH BELOW. ALL SUCH NOTICES AND COMMUNICATIONS SHALL BE EFFECTIVE WHEN ACTUALLY RECEIVED BY THE INTENDED RECIPIENT PARTY.

IF TO THE BENEFICIARY OF THIS STANDBY LETTER OF CREDIT:

ISO NEW ENGLAND INC.

ATTENTION: CREDIT DEPARTMENT

1 SULLIVAN RD. HOLYOKE, MA 01040

FAX: 413-540-4569

EMAIL: CREDITDEPARTMENT@ISO-NE.COM

IF TO THE ACCOUNT PARTY:

[NAME]

[ADDRESS]

[FAX]

[PHONE]

IF TO ISSUER:

[NAME]

[ADDRESS]

[FAX]

[PHONE]

[signature]

[signature]

ATTACHMENT 3

**ISO NEW ENGLAND MINIMUM CRITERIA FOR MARKET PARTICIPATION OFFICER
CERTIFICATION FORM**

Certifying Entity:	
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I, _____, a duly authorized Senior Officer of _____ (“Certifying Entity”), understanding that ISO New England Inc. is relying on this certification as evidence that Certifying Entity meets the minimum criteria for market participation requirements set forth in Sections II.A.2 and II.A.3 of the ISO New England Financial Assurance Policy (Exhibit IA to Section I of the ISO New England Transmission, Markets and Services Tariff) (the “Policy”), hereby certify that I have full authority to bind Certifying Entity and further certify as follows:

1. Certifying Entity has established or contracted for written policies, procedures, and controls applicable to participation in the New England Markets, approved by Certifying Entity’s independent risk management function¹, which provide an appropriate, comprehensive risk management framework that, at a minimum, clearly identifies and documents the range of risks to which Certifying Entity is exposed, including, but not limited to, credit risk, liquidity risk, concentration risk, default risk, operation risk, and market risk.
2. Certifying Entity has established or contracted for appropriate training of relevant personnel that is applicable to its participation in the New England Markets.
3. Certifying Entity has appropriate operating procedures and technical abilities to promptly and effectively respond to all ISO New England communications and directions.

I acknowledge that I have read and understand the provisions of the Policy, including those provisions describing ISO New England’s minimum criteria for market participation requirements and the remedies available to ISO New England in the event of a customer or applicant not satisfying those requirements. I acknowledge that the information provided herein true, complete, and correct and is not misleading or incomplete for any reason, including by reason of omission.

(Signature)

Print Name: _____

Title: _____

Date: _____

¹ As used in this certification, a Certifying Entity’s “independent risk management function” can include appropriate corporate persons or bodies that are independent of the Certifying Entity’s trading functions, such as a risk management committee, a risk officer, a Certifying Entity’s board or board committee, or a board or committee of the Certifying Entity’s parent company.

ATTACHMENT 4
ISO NEW ENGLAND ADDITIONAL ELIGIBILITY REQUIREMENTS
CERTIFICATION FORM

Certifying Entity:	
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I, _____, a duly authorized Senior Officer of
_____ (“Certifying Entity”), understanding that ISO New England Inc. is relying on this certification as evidence that Certifying Entity meets the additional eligibility requirements set forth in Section II.A.5 of the ISO New England Financial Assurance Policy (Exhibit IA to Section I of the ISO New England Inc. Transmission, Markets and Services Tariff) (the “Policy”), hereby certify that I have full authority to bind Certifying Entity and further certify as follows:

1. Certifying Entity is now and in good faith will seek to remain (check applicable box(es)):

- ☐ an “appropriate person,” as defined in section(s) [_____] of the Commodity Exchange Act (7 U.S.C. § 1 *et seq.*) (specify which section(s) of Commodity Exchange Act sections 4(c)(3)(A) through (J) apply)) (if Certifying Entity is relying on section 4(c)(3)(F), it shall accompany this certification with supporting documentation reasonably acceptable to the ISO, provided that letters of credit shall be in the form of Attachment 2 to the ISO New England Financial Assurance Policy and shall be in an amount equal to the difference between five million dollars and the Certifying Entity’s total assets. Any such supporting documentation shall serve to establish eligibility under this Section II.A.5 and shall not be counted toward satisfaction of the total financial assurance requirements as calculated pursuant to the ISO New England Financial Assurance Policy);
- ☐ an “eligible contract participant,” as defined in section 1a(18)(A) of the Commodity Exchange Act and in 17 CFR § 1.3(m); or
- ☐ a “person who actively participates in the generation, transmission, or distribution of electric energy,” as defined in the Final Order of the Commodity Futures Trading Commission published at 78 FR 19880 (April 2, 2013).

2. If at any time Certifying Entity no longer satisfies the criteria in paragraph 1 above, Certifying Entity will immediately notify ISO New England in writing and will immediately cease all participation in the New England Markets.

I acknowledge that I have read and understand the provisions of the Policy, including those provisions describing ISO New England’s additional eligibility requirements and the remedies available to ISO New England in the event of a customer or applicant not satisfying those requirements. I acknowledge that the information provided herein true, complete, and correct and is not misleading or incomplete for any reason, including by reason of omission.

(Signature)

Print Name: _____

Title: _____

Date: _____

ATTACHMENT 5

**ISO NEW ENGLAND CERTIFICATE REGARDING CHANGES TO SUBMITTED RISK
MANAGEMENT POLICIES FOR FTR PARTICIPATION**

Certifying Entity:	
---------------------------	--

I, _____, a duly authorized Senior Officer of
_____ (“Certifying Entity”), understanding that ISO New
England Inc. is relying on this certification as evidence that Certifying Entity meets the annual certification
requirement for FTR market participation regarding its risk management policies, procedures, and controls
set forth in Section II.A.2(b) of the ISO New England Financial Assurance Policy (Exhibit IA to Section I
of the ISO New England Inc. Transmission, Markets and Services Tariff) (the “Policy”), hereby certify that
I have full authority to bind Certifying Entity and further certify as follows (check applicable box):

1. ☐ There have been no changes to the previously submitted written risk management policies,
procedures, and controls (and any supporting documentation, if applicable) applicable to the
Certifying Entity’s participation in the FTR market.

OR

2. ☐ There have been changes to the previously submitted written risk management policies,
procedures, and controls (and any supporting documentation, if applicable) applicable to the
Certifying Entity’s participation in the FTR market and such changes are clearly identified and
attached hereto.*

I acknowledge that I have read and understand the provisions of the Policy, including those provisions
describing ISO New England’s risk management policy requirements for FTR market participants and the
remedies available to ISO New England in the event of a customer or applicant not satisfying those
requirements. I acknowledge that the information provided herein true, complete, and correct and is not
misleading or incomplete for any reason, including by reason of omission.

(Signature)

Print Name: _____

Title: _____

Date: _____

* As used in this certificate, “clearly identified” changes may include a redline comparing the
current written risk management policies, procedures, and controls and the previously submitted
written risk management policies, procedures, and controls; or resubmission of the written risk
management policies, procedures, and controls with a bulleted list of all changes, including
section and/or page numbers.

ATTACHMENT 6
MINIMUM CRITERIA FOR MARKET PARTICIPATION
INFORMATION DISCLOSURE FORM

Date: _____

Prepared by: _____

Customer/Applicant:¹ _____

I, _____, a duly authorized Senior Officer of _____ (“Certifying Entity”), understanding that ISO New England Inc. (“ISO”) is relying on this certification provided pursuant to Financial Assurance Policy Section II.A.1(a), hereby certify that I have full authority to bind Certifying Entity and further certify on behalf of Certifying Entity that the information contained herein is true, complete, and correct and is not misleading or incomplete for any reason, including by reason of omission:

1. List of all Principals.² Please discuss each Principal’s relationship with the Certifying Entity and describe each Principal’s previous experience related to participation in North American wholesale or retail energy markets or trading exchanges:
2. List all material litigation (criminal or civil) against Certifying Entity or any of the Certifying Entity’s Principals, Personnel,³ or Predecessors,⁴ arising out of participation in any wholesale or retail energy market (domestic or international) or trading exchanges in the past ten (10) years:

¹ Customer and Applicant are each defined in Section II.A of the ISO New England Financial Assurance Policy, Exhibit 1A to Section 1 of the ISO Transmission, Markets, and Services Tariff (“Tariff”). Capitalized terms used but not otherwise defined herein shall have the meaning given to them in the Tariff.

² Principal is (i) the sole proprietor of a sole proprietorship; (ii) a general partner of a partnership; (iii) a president, chief executive officer, chief operating officer or chief financial officer (or equivalent position) of an organization; (iv) a manager, managing member or a member vested with the management authority for a limited liability company or limited liability partnership; (v) any person or entity that has the power to exercise a controlling influence over an organization’s activities that are subject to regulation by the Federal Energy Regulatory Commission (“FERC”), the Securities and Exchange Commission (“SEC”), the Commodity Futures Trading Commission (“CFTC”), any exchange monitored by the National Futures Association (“NFA”), or any state entity responsible for regulating activity in energy markets; or (vi) any person or entity that: (a) is the direct owner of 10% or more of any class of an organization’s equity securities; or (b) has directly contributed 10% or more of an organization’s capital.

³ Personnel means any person, current or former, responsible for decision making regarding Certifying Entity’s transaction of business in the New England Markets, including, without limitation, decisions regarding risk management and trading, or any person, current or former, with access to enter transactions into ISO systems. Disclosures regarding former Personnel shall only be required for when such Personnel was employed by Certifying Entity.

⁴ Predecessor shall mean any person or entity whose liabilities, including liabilities arising under the Tariff, have or may have been retained or assumed by Certifying Entity, either contractually, by operation of law or considering all relevant factors, including the interconnectedness of the business relationships, overlap in relevant personnel, similarity of business activities, overlap of customer base.

(Enter N/A if not applicable)

3. List all sanctions issued against or imposed upon Certifying Entity, Certifying Entity's Principals, Personnel, or Predecessors, by the FERC, the SEC, the CFTC, any exchange monitored by the NFA, or any entity responsible for regulating activity in any wholesale or retail energy market (domestic or international) or trading exchanges where such sanctions were either imposed in the past ten (10) years or, if imposed prior to that, are still in effect. List all known material ongoing investigations regarding Certifying Entity, Certifying Entity's Principals, Personnel, or Predecessors, imposed by the FERC, the SEC, the CFTC, any exchange monitored by the NFA, or any entity responsible for regulating activity in any wholesale or retail energy market (domestic or international) or trading exchanges:

(Enter N/A if not applicable)

4. Provide a summary of any bankruptcy, dissolution, merger, or acquisition of Certifying Entity in the past ten (10) years (include date, jurisdiction, and other relevant details):

(Enter N/A if not applicable)

5. List all wholesale or retail energy market-related operations in North America where Certifying Entity is currently participating, or, in the past five (5) years, has previously participated other than in the New England Markets (e.g., PJM - FTRs):

(Enter N/A if not applicable)

6. Describe if Certifying Entity or any of Certifying Entity's Principals, Personnel, or any Predecessor of the foregoing ever had its participation or membership in any independent system operator or regional transmission organization (domestic or international) terminated, its registration/membership application denied, or is subject to an existing uncured suspension from participating in the markets of any independent system operator or regional transmission organization (domestic or international), each in the past five (5) years.

(Enter N/A if not applicable)

If you are currently an active participant and this is your annual submission you do not have to complete Question 7 and can skip to the signature block below. If you are in the process of applying for membership with the ISO you are required to answer the additional questions listed below.

7. Describe how Certifying Entity plans to fund its operations, including persons or entities providing financing and such person(s)' or entity(ies)' relationship to the Certifying Entity. Include any relationships that may impact Certifying Entity's ability to (a) comply with the time frames to post financial assurance and/or pay invoices or other amounts owed to the ISO, each as required by the Tariff; or (b) provide a first priority perfected security interest in required financial assurance to the ISO:

Certifying Entity: _____

By: _____
(Signature)

Print Name: _____

Title: _____

Date: _____

** To satisfy the disclosure requirements above, a Certifying Entity may attach additional materials and may provide the ISO with filings made to the SEC or other similar regulatory agencies that include substantially similar information to that required above, provided that Certifying Entity clearly indicates where the specific information is located in those filings.

ISO New England Inc.) Docket No. ER24-____-000
)

8 A: I joined the ISO as the Director, Market and Credit Risk in December 2022. Prior
9 to joining the ISO, I worked at NextEra Energy Inc., an investor-owned utility
10 company in Juno Beach, FL for seven years, as Executive Director – Risk and
11 Credit Exposure Management. Previous to that, I was the Managing Director –
12 Credit Risk - for SunEdison Inc. (in California) for one year, and the Director
13 Credit Risk Management with E.ON Global Commodities (based in Germany) for
14 six years. Additionally, I worked for a decade in the corporate/investment banking
15 sector in Europe in various senior credit risk management roles. I earned an

1 Executive Master of Business Administration from the Kellogg School of
2 Management at Northwestern University and a Bachelor of International
3 Marketing and Languages at Dublin City University, Ireland.

4

5 **I. PURPOSE AND ORGANIZATION OF TESTIMONY**

6 **Q: WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
7 **PROCEEDING?**

8 A: The purpose of my testimony is to explain revisions to the ISO New England
9 Financial Assurance Policy (the “FAP”)¹ to modify the FCM Delivery Financial
10 Assurance calculation for entities with inadequate corporate liquidity (“FAP
11 Revisions”).

12

13 **Q: HOW WILL YOUR TESTIMONY BE ORGANIZED?**

14 A: This first portion of the testimony provides a high-level overview of the FAP
15 Revisions (Section I). The remainder of my testimony will describe how the ISO
16 identified and analyzed the risks of defaults from capacity sellers with inadequate
17 corporate liquidity (Section II), how FCM Delivery Financial Assurance is
18 currently calculated (Section III), and the FAP Revisions in detail (Section IV).

19

20

¹ Capitalized terms used in this testimony but not otherwise defined herein shall have the meaning set forth the ISO New England Transmission, Markets and Services Tariff (the “Tariff”), the Second Restated NEPOOL Agreement, and the Participants Agreement. The FAP is Exhibit IA to the Tariff.

1 **Q. GENERALLY, WHY IS THE ISO PROPOSING THE FAP REVISIONS?**

2 A: The collateral requirements contained within the FAP are designed to ensure that
3 there is sufficient cash available to clear the market each day and to cover a
4 Market Participant’s settled obligations in the case of a default. As explained in
5 my testimony in Docket ER24-661-000, the ISO determined that the collateral
6 requirements related to the Forward Capacity Market (“FCM”) pay-for-
7 performance (“PFP”) design feature should be enhanced to better collateralize
8 risks.

9
10 After Winter Storm Elliott, the ISO monitored the disputes between PJM
11 Interconnection, L.L.C. (“PJM”) and its members over Winter Storm Elliott “non-
12 performance” charges and generator defaults. Of specific concern was several
13 generators’ inability to pay PJM’s assessed penalty charges absent the
14 Commission approved settlement² and several entities’ bankruptcy filings as a
15 result of the assessed penalties.³ Additionally, although Capacity Scarcity
16 Conditions in New England have been somewhat limited, a few of the
17 experienced scarcity events would have resulted in non-performance penalties up

² *PJM Interconnection L.L.C.*, 185 FERC ¶ 61,204 (2023); *see also PJM Interconnection, L.L.C.*, Offer of Settlement in Winter Storm Elliot Complaints, Docket No. ER23-2975-000 (filed Sept. 29, 2023).

³ *PJM Interconnection, L.L.C.*, Offer of Settlement in Winter Storm Elliot Complaints, Docket No. ER23-2975-000, at Section 7.3 (filed Sept. 29, 2023) (stating “This Settlement does not apply to the bankruptcy proceedings initiated prior to the filing date of this Settlement, including those of debtors Lincoln Power, L.L.C, et al., jointly administered under Case No. 23-10382 (Bankr. D. Del.); EFS Parlin Holdings, LLC, Case No. 23-10539 (Bankr. D. Del.); and Heritage Power, LLC, et al., jointly administered under Case No. 23-90032 (Bankr. S.D. Tex.).”)

1 to the monthly stop-loss (if a resource did not perform) if such events had
2 occurred at the higher payment rate that goes into effect on June 1, 2025.⁴ As a
3 result of our analysis, the ISO determined that two primary risks needed to be
4 addressed: (1) the risk that substantial collateral shortfalls could result if the FCM
5 Delivery Financial Assurance formula was not modified; and (2) the higher
6 nonpayment risk posed by capacity sellers with inadequate corporate liquidity risk
7 profiles when compared against their maximum potential penalty payment
8 obligation during the Capacity Commitment Period associated with their Capacity
9 Supply Obligation (“CSO”).⁵ The first risk was addressed by the improvements
10 made to the FCM Delivery Financial Assurance formula that became effective
11 March 1, 2024.⁶ The second risk, the higher risk to the market introduced by
12 capacity sellers with inadequate corporate liquidity, is addressed by the FAP
13 Revisions and is the focus of my current testimony. As further described in

⁴ See *infra* at note 30. The PFP (or non-performance) penalty rate has recently increased and will increase again on June 1, 2025. Tariff § III.13.7.2.5 (describing a Performance Payment Rate \$3500/MWh between June 1, 2021 and May 31, 2024, \$5455/MWh between June 1, 2024 and May 31, 2025, and \$9337/MWh beginning on June 1, 2025); see also *ISO New England Inc. & NEPOOL Participants Comm.*, Filing of ISO New England Inc. and New England Power Pool Regarding Update the FCM Delivery Financial Assurance Calculation in the Financial Assurance Policy, Testimony of Christopher Nolan on Behalf of ISO New England Inc., Docket No. ER24-661-000, at 3 (filed Dec. 14, 2023) (the “December FCM Delivery FA Filing”) (accepted via Delegated Letter Order issued Feb. 9, 2024) (mistakenly referring to the change in the Performance Payment Rate occurring in 2024 and 2026, rather than 2024 and 2025).

⁵ Throughout the testimony, I will use non-performance or PFP penalties colloquially to describe the payments a participant may owe after failing to perform during a Capacity Scarcity Condition. The defined term in the Tariff is Capacity Performance Payments (which can be positive or negative), defined as “the performance-dependent portion of revenue received in the Forward Capacity Market, as described in Section III.13.7.2 of Market Rule 1.” See Tariff Section I.2.2. Additionally, I use the terms capacity sellers, FCM participants, participants, and market participants interchangeably. The FAP has a specific term for such participants “Designated FCM Participant,” which is any Lead Market Participant transacting in the FCM. See FAP Section VII.

⁶ See generally December FCM Delivery FA Filing.

1 Section II below, the nonpayment risk associated with capacity sellers possessing
2 inadequate corporate liquidity is a risk to the entire market pool because if non-
3 performance penalties are not paid, remittances owed to any participant (in any
4 sector) may be short paid.

5
6 **Q. PLEASE PROVIDE AN OVERVIEW OF THE FAP REVISIONS.**

7 A: Generally, the FAP Revisions amend the financial assurance requirements for
8 participants that do not have adequate corporate liquidity relative to potential PFP
9 financial obligations. The revisions provide that, beginning with the 2025 - 2026
10 Capacity Commitment Period, the ISO will perform a corporate liquidity
11 assessment on each FCM participant holding a CSO, to determine its ability to
12 pay potential penalty payment obligations associated with its CSO within the
13 applicable Capacity Commitment Period over a forward-looking rolling six
14 months. Based on the results of the corporate liquidity assessment, low risk
15 participants will continue to be subject to the current FCM Delivery Financial
16 Assurance methodology and medium and high risk participants will be subject to
17 higher collateral requirements (risk adders), as they pose higher nonpayment risk
18 to the market. If a participant is high or medium risk, but has an Affiliate with
19 adequate liquidity, the Affiliate may provide a guaranty guaranteeing the payment
20 of the participant's potential non-performance penalties and the liquidity
21 assessment will then utilize the liquidity of the Affiliate entity.

22

1 The ISO also proposes a revision to the calculation of the IMC variable in the
2 existing FCM Delivery Financial Assurance formula to better protect participants
3 from unnecessary short spikes in collateral during the delivery month, which
4 would be implemented as of February 1, 2025, the proposed effective date. I will
5 provide a detailed explanation of the FAP Revisions in detail in Section IV of my
6 testimony.

8 **II. IDENTIFICATION OF RISK AND FINANCIAL IMPACT ANALYSIS**

9 **Q: WHAT IS THE RISK THAT THE FAP REVISIONS WILL ADDRESS?**

10 A: There is a significant risk to the New England Markets caused by the fact that
11 many FCM participants do not have adequate corporate liquidity to satisfy their
12 contractual,⁷ financial obligations related to the CSOs they were awarded and
13 continue to hold (*i.e.*, the obligation to pay penalty amounts if their resources
14 don't perform during Capacity Scarcity Conditions). Without adequate corporate
15 liquidity, these entities pose significant default risk after multiple months
16 containing Capacity Scarcity Conditions. Regardless of seasonal risk, Capacity
17 Scarcity Conditions can occur at any time during the Capacity Commitment
18 Period and participants that do not perform during such events can incur
19 significant penalty payments. The penalties are limited each month by the

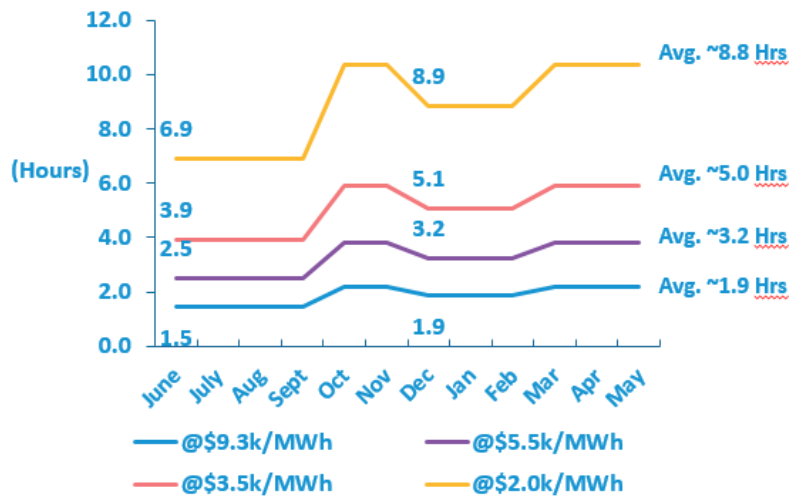
⁷ Throughout my testimony, I refer to FCM participants' contractual obligations when referring to their CSO and the obligation to perform or pay penalties. This is because to become a Market Participant, an entity must sign a Market Participant Service Agreement, which requires the Market Participant to be bound by the terms of the Tariff. *See* Tariff §1.2.2, I.3.1; *see also* Tariff Attachment A, Section 3.2.

1 operation of the monthly stop-loss (as described in III.13.7.3.1 of Market Rule 1)
2 and aggregate to the annual stop-loss (as described in Section III.13.7.3.2 of
3 Market Rule 1). If these penalties are not properly accounted for on a participant's
4 balance sheet, they can place significant stress on the participant's ability to
5 timely pay invoices that include penalty payments. Because the ISO's Billing
6 Policy requires a participant to pay within two Business Days, if a participant has
7 not properly accounted for this risk by having enough short-term liquidity (*e.g.*,
8 cash on hand, available credit facilities, or marketable securities), it is unlikely
9 that it would be able to resolve the liquidity needs in time to pay its invoice within
10 the two day window. However, even if a participant were afforded a longer time
11 to pay such invoice, the need to resolve liquidity shortfalls after a significant
12 obligation has been incurred (if it wasn't properly planned for) can nonetheless
13 jeopardize the financial health of the whole entity and potentially result in a
14 bankruptcy filing.

15
16 Additionally, even short duration Capacity Scarcity Conditions can result in
17 capacity sellers owing the ISO their maximum monthly financial contractual
18 obligation if they are unable to perform or timely address operational performance
19 issues. For example, as the chart below shows, under the current Performance
20 Payment Rate participants would reach their monthly stop-loss after
21 approximately 3.2 hours of Capacity Scarcity Conditions where they don't
22 perform at all, and under the rate effective June 1, 2025 would reach their
23 monthly stop-loss after only 1.9 hours (of Capacity Scarcity Conditions and no

1 performance).⁸ In other words, the underlying event causing a Capacity Scarcity
 2 condition does not need to be an extreme, days-long event for a participant's
 3 maximum monthly penalty to be triggered. Again, as the chart shows, although it
 4 would take more hours for a resource to reach its monthly stop-loss at a lower
 5 penalty rate, the underlying event's duration still does not need to be extreme to
 6 trigger the maximum penalty.

**# of Capacity Scarcity Condition (CSC) Hours
 Required to Reach Monthly Stop-Loss**



⁸ The input values (*i.e.*, Capacity Auction Starting Price) used in the chart, other than the payment rates which are set by the Tariff, are based on inputs drawn from the 2025 - 2026 Capacity Commitment Period. The number of hours it takes to reach the monthly stop-loss will vary by season because the minimum number of Capacity Scarcity Condition hours required to reach the monthly stop-loss is expected to vary based on seasonal variations in the Capacity Balancing Ratio (generally, the assumed slice of system obligation of the CSO holder during that season). In other words, the financial consequence of not performing during a single five minute interval in the summer is expected to be greater because a resource's slice of system obligation is expected to be higher in summer.

1 Furthermore, as I will show in more detail below, if a participant incurs their
2 maximum monthly obligation during several months of the Capacity Commitment
3 Period (up to its annual stop-loss amount), the strain on liquidity will become
4 even more pronounced if such risk was not properly accounted for. And, despite
5 certain months having a higher risk of Capacity Scarcity Conditions than others,
6 transient scarcity events⁹ and stressed market conditions may occur during any
7 month throughout the year, which means that it would not be unexpected for a
8 participant (with a resource(s) that does not perform) to incur their maximum
9 penalty during more than one month per Capacity Commitment Period.
10 Regardless of when an event happens, or how many months within a Capacity
11 Commitment Period have scarcity events, or the probability of additional events
12 occurring, by virtue of acquiring and holding a CSO, a participant is expected to
13 account for the financial risk that penalties may be incurred if the participant's
14 resource(s) is/are unable to perform during stressed conditions.

⁹ Transient reserve shortage events are reserve shortage events that result from operational risks such as under-commitment due to load forecast error or the loss of critical transmission elements. *See* ISO-NE Memo re: FCA16 Net CONE Parameters – Expected Capacity Scarcity Hours and Balancing Ratio, at 5 (July 8, 2020) (Describing transient reserve shortage events as arising from operational risks), *available at* https://www.iso-ne.com/static-assets/documents/2020/07/a5_a_iso_memo_scarcity_hours_balancing_ratio.pdf.

Q: WHAT IS THE PURPOSE OF FCM DELIVERY FINANCIAL ASSURANCE AND WHY ISN'T SUCH PURPOSE ADDRESSED BY THE CURRENT METHODOLOGY?

FCM Delivery Financial Assurance is one component of the financial assurance that a participant is required to provide if it is participating in FCM and acquires and holds a CSO during a Capacity Commitment Period. One design feature of the ISO's FCM is the "pay-for-performance" or "PFP" construct which provides incentives for resources that perform during Capacity Scarcity Conditions and conversely imposes a non-performance payment obligation on resources that do not perform or underperform during such conditions. As a result, a resource's net capacity payments may be negative and, therefore, the FAP contains financial assurance requirements to collateralize the possibility of net payment obligations under the PFP market design. Importantly, participants that obtain a CSO in a Forward Capacity Auction, a Monthly Reconfiguration Auction, or through a bilateral trade (and continue to hold such position) have taken on a contractual obligation to perform during Capacity Scarcity Conditions and if they don't perform (or underperform), they are contractually obligated to pay a penalty. A fundamental principal of the FCM design is that participants who hold a CSO will be able to meet their financial obligations if their resources are unable to perform during Capacity Scarcity Conditions.

The current FCM Delivery Financial Assurance formula is the mechanism by which the ISO collateralizes a participant's potential financial obligations arising

1 from having a CSO during a Capacity Commitment Period. Specifically, the FCM
2 Delivery Financial Assurance formula is designed to cover three risks: (1)
3 clearing risk (*i.e.*, the risk that incurred payment obligations are not timely
4 discharged resulting in a cash imbalance that impairs the ISO's ability to clear all
5 markets), (2) credit risk (*i.e.*, the risk of default on payment obligations arising
6 from negative capacity payments associated with CSOs during the Capacity
7 Commitment Period), and (3) liquidation risk (*i.e.*, the risk that losses may
8 continue to accrue against a CSO position post default up to the annual stop-loss
9 in any Capacity Commitment Period before a participant is able to close the
10 position, and the risk that the defaulted position, when closed, is sold at a loss).

11
12 The FAP Revisions update the current FCM Delivery Financial Assurance
13 methodology to periodically monitor and adjust the collateral posting
14 requirements of each participant holding a CSO (beginning June 1, 2025)¹⁰ to
15 reflect their individual credit risk as measured by the relationship between their
16 access to corporate liquidity and potential PFP/non-performance penalty
17 payments over a rolling six month window. In this way, the FAP Revisions
18 require more collateral upfront from the entities posing a higher likelihood of
19 default should an obligation arise (*i.e.*, higher credit risk) and, because of the
20 ongoing nature of the periodic liquidity reviews, if the ISO determines that a

¹⁰ The FAP Revisions refer to the Capacity Commitment Period related to the sixteenth Forward Capacity Auction, which is the 2025 - 2026 Capacity Commitment Period.

1 participant is running out of liquidity, then their risk assessment will require
2 higher amounts of financial assurance to commensurately protect the market on
3 an ongoing basis.

4
5 In Docket ER24-661-000, the ISO made improvements to the FCM Delivery
6 Financial Assurance formula that strengthened the methodology with respect to
7 each risk. And, as I explained in my prior testimony, the credit risk portion of the
8 FCM Delivery Financial Assurance formula is not designed to fully collateralize
9 all potential risk up to the full amount of potential penalties.¹¹ In other words, the
10 formula does not require the full amount of potential penalties *upfront* as
11 collateral. Instead, as penalties are incurred, the full amount of penalties are
12 generally collateralized through the clearing risk portion of the formula until they
13 are paid.¹² However, the effectiveness of the current methodology assumes that
14 participants have sufficient liquidity to meet the full amount of their potential
15 penalties. As penalties are incurred, they naturally are reflected in the FCM
16 Delivery Financial Assurance formula; so, to the extent that a participant incurs
17 non-performance penalties, it will be required to post an incremental amount as
18 part of the formula's operation. If a participant does not have adequate liquidity to
19 post that incremental financial assurance amount, it also means they may not have

¹¹ December FCM Delivery FA Filing, Nolan Testimony at 26 (filed Dec. 14, 2023).

¹² This occurs primarily through the IMC and MCC variables of the formula, which I explain in more detail later in my testimony.

1 the liquidity to discharge their obligations once settled. Therefore, the FAP
2 Revisions address the issue that not all participants that have acquired and hold
3 CSOs have adequate liquidity profiles by requiring those with insufficient
4 corporate liquidity to post more collateral upfront and on an ongoing basis to
5 address the heightened risk that they pose to the market.
6

7 **Q: HOW DID THE ISO IDENTIFY THIS RISK?**

8 A: The ISO reviewed the 2023 year-end financial statements of the participants that
9 hold CSOs for the 2025 - 2026 Capacity Commitment Period, specifically
10 focusing on liquidity measures reflected on such financials (such as available
11 cash, marketable securities, and the amount of credit that can be drawn from
12 lending facilities) as well as excess financial assurance posted to the ISO.¹³ In
13 other words, the ISO looked at the participants' ability to pay non-performance
14 penalties, should they arise during the Capacity Commitment Period. Because the
15 maximum potential net settled obligations (*i.e.*, charges or penalties) arising from
16 FCM participation can be calculated ahead of time, the ISO then compared each
17 participant's corporate liquidity against their maximum potential monthly
18 obligation (*i.e.*, their monthly stop-loss amount) as well as their maximum

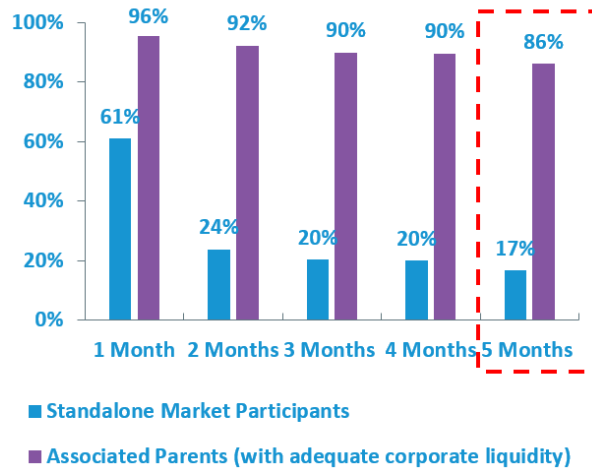
¹³ When the ISO began its examination of the risk described herein, it analyzed the 2022 year-end financial statements of participants with CSOs related to the Capacity Commitment Period starting on June 1, 2025, but updated its analysis when year-end 2023 financials became available. This analysis was based on participants that hold a CSO for the 2025 - 2026 Capacity Commitment Period as of May 2024, which was prior to the second and third reconfiguration auctions for the 2025 - 2026 Capacity Commitment Period. The details of the corporate liquidity assessments are further described below in Section IV.A of my testimony.

1 potential annual obligation (*i.e.*, their annual stop-loss amount). As the below
2 chart illustrates, the percentage of CSOs held by participants for the 2025 - 2026
3 Capacity Commitment Period that have sufficient corporate liquidity to meet their
4 monthly stop-loss amount steadily decreases as the number of months during
5 which they incur the monthly stop-loss amount increases to five (which is
6 approximately the amount of consecutive or non-consecutive months it would
7 take to reach the annual stop-loss amount based on the market prices specifically
8 associated with the sixteenth Forward Capacity Auction, assuming a flat CSO
9 profile).¹⁴ As shown below, during the fifth month only 17% of CSO volume is
10 held by FCM participants that reported enough corporate liquidity to cover the
11 maximum potential contractual obligations associated with their expected 2025 -
12 2026 Capacity Commitment Period CSO (*i.e.*, their annual stop-loss amount).¹⁵
13 But even more striking is that more than three quarters of the CSO volume is held
14 by FCM participants could not demonstrate enough corporate liquidity to cover
15 two months of non-performance penalties.

¹⁴ The amount of months it takes to reach the annual-stop loss will vary based on the ratio of the Forward Capacity Auction Starting Price and the Capacity Clearing Price for each auction. *See* Tariff Section III.13.7.3.2.

¹⁵ The values presented in the chart are based on review of the 2023 year-end financial statements of participants with obligations for the 2025 - 2026 Capacity Commitment Period (prior to the second and third annual reconfiguration auctions).

**% of MPs / Parents by CSO Volume
with Corporate Liquidity Exceeding
Monthly Stop-Loss Obligation**



However, the chart shows that although many participants cannot demonstrate sufficient corporate liquidity to meet their potential financial obligations arising from their 2025 - 2026 Capacity Commitment Period CSO, the picture is markedly improved when parent entities' liquidity is considered, assuming these parent entities are willing to issue a guaranty covering the participants' PFP financial obligations.

Q: PLEASE DESCRIBE THE RISK THAT CAPACITY SELLERS WITHOUT ADEQUATE CORPORATE LIQUIDITY POSE TO THE MARKETS.

A: Market participants that deplete their available corporate liquidity after repeated Capacity Scarcity Conditions (whether those events occur in consecutive months or in several months over the course of a year) pose higher default risk to the pool as they may be unable to pay their non-performance penalties, which are included on a participant's monthly invoice. As I noted above, invoice payments are due

1 within two Business Days of the invoice and in the event that invoice is not paid,
2 the payment default follows the default allocation procedures in the Billing
3 Policy. Generally, the Billing Policy default allocation procedures provide that
4 after exercising the right of set off against a defaulting participant (*i.e.*,
5 withholding amounts owed to such participant) and drawing down on the
6 participant's posted collateral, default amounts that cannot be covered by the Late
7 Payment Account or the ISO's short-term funding facility, will result in reduced
8 payments to participants (from any sector) that are due to receive remittances (*i.e.*,
9 payments) in the billing cycle in which the default occurs.¹⁶ In simplest terms,
10 the defaults may be socialized to the pool because the ISO cannot pay amounts
11 owed if it does not receive payments from participants. Unlike other capacity
12 markets where performance related penalties may only be socialized among other
13 capacity sellers,¹⁷ the PFP obligations in ISO New England are not segregated
14 from other market settlements. In other words, nonpayment of a non-performance
15 penalty has the potential to affect the New England Markets and impacts
16 participants in various sectors (*i.e.*, not just other FCM participants or capacity
17 sellers). This risk to the market is exacerbated if multiple capacity sellers with

¹⁶ See generally, ISO New England Billing Policy, which is Exhibit ID to the Tariff. The Billing Policy has separate default allocations for "ISO Charges" (which includes FCM obligations) and "Transmission Charges." See Billing Policy at Sections 3.3 and 3.4 (outlining full details of the default allocation, including how defaults by participants with credit limits are allocated).

¹⁷ *PJM Interconnection, LLC*, Filing of PJM Interconnection, LLC to Propose Amendment to the Billing of Non-Performance Charges, at 7, Docket No. ER23-1038-000 (Feb. 2, 2023) ("To be clear, because Non-Performance Charges are fully allocated to pay for bonus performance payments, any potential defaults stemming from the non-payment of Non-Performance Charges would not be socialized across the PJM Membership body.").

1 inadequate corporate liquidity default on their obligations during stressed market
2 conditions; a Winter Storm Elliott-like event will likely result in more than one
3 participant with significant penalty obligations.
4

5 In addition to the risk that a participant may not be able to timely pay its invoice,
6 non-performance penalties may cause a larger and longer lasting liquidity crisis
7 for a participant if the possibility of incurring such payments were not properly
8 accounted for. This is because once a significant unplanned for penalty is
9 incurred, if liquid assets are unavailable, getting access to such liquidity becomes
10 more difficult during times of financial stress. In fact, as was seen in the PJM
11 market after Winter Storm Elliott, the strain on liquidity may require a participant
12 to file for bankruptcy protection. In the PJM example, liquidity crises at three
13 different PJM market participants ultimately led to Chapter 11 Bankruptcy
14 filings.¹⁸ Those participants described the basis for insolvency as relating to, in
15 pertinent part, pre-existing liquidity constraints due to clearing prices that had
16 trended lower in recent years, but it was the less than full performance by units
17 during the capacity scarcity intervals during Winter Storm Elliott that triggered
18 the bankruptcy filings.¹⁹

¹⁸ The bankruptcy proceedings included those of Lincoln Power, L.L.C, et al., jointly administered under Case No. 23-10382 (Bankr. D. Del.); EFS Parlin Holdings, LLC, Case No. 23-10539 (Bankr. D. Del.); and Heritage Power, LLC, et al., jointly administered under Case No. 23-90032 (Bankr. S.D. Tex.).

¹⁹ Lincoln Power, L.L.C, Declaration of Justin D. Pugh, Chief Restructuring Officer of the Debtors in Support of Chapter 11 Petitions and First Day Pleadings at P 40, Case No. 23-10382 (Bankr. D. Del.) (“Lincoln Power First Day Filing”), available at

(continued...)

1

2 A bankruptcy filing by a participant with a CSO introduces other risks to the
3 market, including the ISO losing the ability to set off²⁰ base capacity payments
4 owed to the participant to minimize the size of its default and potential negative
5 impacts to the underlying resources depending on the outcome of the bankruptcy
6 (*e.g.*, a debtor or buyer in bankruptcy may decide to retire a resource, as was
7 observed in PJM).²¹

8

9 As the risk to the market can be severe depending on the size of a default and the
10 number of participants defaulting, the FAP Revisions impose reasonable
11 incremental financial assurance requirements, for the riskiest participants, to
12 ensure that they are not shifting the risk of non-performance penalties to the pool.

(...continued)

https://casedocs.omniagentsolutions.com/cmsvol2/pub_47469/70cb284e-adfd-4d60-8286-894b0679355f_12.pdf; see also *Heritage Power, LLC.*, Declaration of David Freysinger in Support of the Debtors' Chapter 11 Petitions and Requests for First Day Relief at P 47, Case No. 23-90032 (Bankr. S.D. Tex.) (Heritage Power First Day Filing), *available at* <https://www.coleschotz.com/wp-content/uploads/2023/01/Heritage-Power-First-Day-Declaration.pdf>.

²⁰ Typically, if a participant has defaulted on their payment obligations to the ISO, the ISO sets off amounts owed to such participant (*i.e.*, the ISO would not provide the defaulting participant its base capacity payments until it cured its payment default). *See* Billing Policy Section 3.3(b); FAP Section XI.C. However, in bankruptcy, any setoff rights as set forth in the Tariff become subject to the operation of the U.S. Bankruptcy Code, which only allows the set off of mutual pre-bankruptcy debts (after court approval). For example, the Bankruptcy Code would not allow the offset of a base capacity payment owed to the participant that arose post-bankruptcy against a payment obligation owed to ISO that arose pre-bankruptcy.

²¹ Parlin Generating Facility Generator Deactivation Notification (June 30, 2023) ("Parlin has filed for bankruptcy and is pursuing potential options to sell or retire the facility. Pending review by PJM, Parlin may retire the unit indefinitely. In that event, the planned retirement date is November 1, 2023."), *available at* <https://www.pjm.com/-/media/planning/gen-retire/deactivation-notices/parlin-deactivation-notice.ashx>; *see also* PJM Interconnection L.L.C. Response to Deactivation Notice for Parlin Generating Unit (Aug. 31, 2023), *available at* <https://www.pjm.com/-/media/planning/gen-retire/deactivation-notices/pjm-response-letter-parlin.ashx>.

1 **Q: HOW MUCH WILL FINANCIAL ASSURANCE REQUIREMENTS**
2 **INCREASE AS A RESULT OF THE FAP REVISIONS?**

3 A: Overall, based on the analysis of participants' financial statements as of 2023
4 year-end, for the 2025 - 2026 Capacity Commitment Period, the ISO would
5 expect FCM Delivery Financial Assurance obligations to increase by an average
6 of \$72 million to \$90 million, in the aggregate for the entire market, over such
7 Capacity Commitment Period, depending primarily on the number of Affiliate
8 guaranties received by the ISO.

9

10 **Q: HOW DID THE ISO ARRIVE AT ITS ESTIMATE OF INCREMENTAL**
11 **FINANCIAL ASSURANCE REQUIREMENTS?**

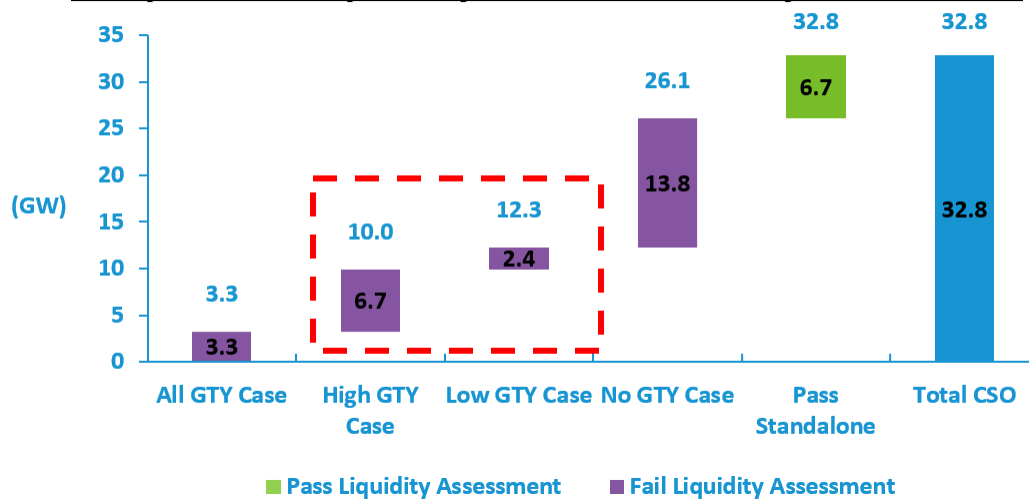
12 A: To arrive at the above-described values, the ISO began by assessing the corporate
13 liquidity of those participants with a CSO during the 2025 - 2026 Capacity
14 Commitment Period to determine which participants would be able to be assessed
15 as "low risk" under the proposed Corporate Liquidity Assessment. Of the
16 approximately 32.8 GW²² of total CSOs for the 2025 - 2026 Capacity
17 Commitment Period, 6.7 CSO GWs are held by participants that pass the liquidity
18 assessment without the need for an Affiliate guaranty or increased collateral.

19

²² To arrive at the approximately 32.8 GW, the ISO calculated the total number of GWs of CSOs held by participants (as of May 2024, which is prior to the completion of the second and third annual reconfiguration auctions for the 2025 - 2026 Capacity Commitment Period) based on each participant's peak MW CSO month.

1 For the remaining 26.1 GW held by participants with insufficient liquidity to be
2 assessed as “low risk” under the proposed Corporate Liquidity Assessment, the
3 ISO evaluated four different scenarios based on varying levels of affiliate
4 guaranties: (1) a “no guaranty” scenario; (2) an “all guaranty” scenario; (3) a “low
5 guaranty” scenario; and (4) a “high guaranty” scenario. These scenarios are
6 summarized by the charts²³ below, and explained in the paragraphs that follow.

Corporate Liquidity Assessment by CSO (GW)



²³ Chart values are for the 2025 - 2026 Capacity Commitment Period.

Guarantee Posting Scenarios

CCP 2025-26 (Total CSOs ~32.8 GW)								
	Low GTY Scenario				High GTY Scenario			
Market Participant Category	CSO (GW)	MPs (#)	Current Average Monthly PFP Collateral (\$ MM)	Average Incremental PFP Collateral (\$ MM)	CSO (GW)	MPs (#)	Current Average Monthly PFP Collateral (\$ MM)	Incremental PFP Collateral (\$ MM)
Pass on Standalone Basis ⁽¹⁾	6.7	75	\$26	NA	6.7	75	\$26	NA
Pass Utilizing Affiliate GTY ⁽¹⁾	13.8	14	\$37	NA	16.1	27	\$47	NA
Medium & High Risk ⁽¹⁾	<u>12.3</u>	<u>68</u>	<u>\$51</u>	<u>\$90</u>	<u>10.0</u>	<u>55</u>	<u>\$41</u>	<u>\$72</u>
Total	32.8	157	\$114	\$90	32.8	157	\$114	\$72

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The two bookend scenarios (*i.e.*, no guaranty and all guaranty) are the most easily derived. The no guaranty scenario, in which the ISO receives no guaranties from eligible Affiliates, results in the full remaining 26.1 GW falling into the medium or high risk categories based on the liquidity assessment and requiring further collateral. The all guaranty case, in which the ISO received the maximum number of guaranties from participants with eligible Affiliates, results in only 3.3 GW falling into the medium or high risk categories based on the liquidity assessment and requiring further collateral.

However, the ISO does not assume that it will receive the maximum number of guaranties, nor does it expect to receive no guaranties. Instead, we expect the number of guaranties to fall within a range and so the ISO developed two case scenarios to account for the range of guaranties it expects. The first scenario: high case guaranties assumes that a larger amount of participants use the Affiliate

1 guaranty option. The second scenario: low case guaranties assumes that a smaller
2 amount of participants use the Affiliate guaranty option.

3

4 **Q: PLEASE FURTHER DESCRIBE HOW THE ISO DEVELOPED ITS LOW**
5 **AND HIGH GUARANTY CASE SCENARIOS.**

6 A: As I explained above, the ISO understands that it will not likely receive guaranties
7 from every market participant with a parent or affiliate that can provide one and
8 not all entities have a parent or affiliate, but we anticipate that some participants
9 will avail themselves of this option in lieu of having to post incremental collateral.
10 To develop the two guaranty case scenarios, the ISO began with the 26.1 GW of
11 CSOs that, as described above, are held by participants that would not be
12 expected to pass the liquidity assessment (*i.e.*, be assessed as low risk) on a
13 standalone basis (*i.e.*, without considering the liquidity of a parent of an
14 affiliate).²⁴ To determine how likely it was that a parent or affiliate *might* provide
15 liquidity support, the ISO considered several factors, including input from market
16 participants, existence of parent/affiliate entities with adequate liquidity, and
17 whether the parent/affiliate entity is an entity in the energy industry or an asset
18 management, private equity, or pension fund firm. Entities within the energy
19 industry are more likely to provide liquidity support should the need arise because

²⁴ Some corporate families may be organized in a way to specifically isolate the entity with a CSO from other parts of the corporate family to limit financial losses (typically in the case of a bankruptcy filing) and, ultimately, the revenue stream from the CSO is less of a corporate priority than other corporate families where the resource and the CSO revenue stream are central business components.

1 the participant in the FCM is more central to the overall business, whereas
2 financial entities may view such participant as an investment vehicle rather than a
3 core business operation or operating segment. After accounting for the
4 approximately 3.3 GW of CSO held by participants that have no parent/affiliates
5 from which to obtain a guaranty or have a parent/affiliate that does not have
6 enough liquidity, and another 6.7 GW of CSOs held by participants that are
7 unlikely to obtain a guaranty from a parent/affiliate because such parent/affiliate
8 is unwilling to provide a guaranty or unable to provide because of restrictive debt
9 covenants, the ISO determined that the remaining 16.1 GW will likely be afforded
10 a guaranty in the high guarantee scenario.²⁵ Considering the industry of the
11 affiliate, as well as the other factors described above, the ISO further reduced that
12 16.1 GW by 2.3 GW to determine the low guaranty scenario. Based on these
13 factors, the ISO settled upon the parent/affiliate guarantee assumptions in the
14 table below for the high and low guaranty scenarios.

²⁵ This value is based on the 26.1 GW held by participants that don't have the necessary corporate liquidity on a standalone basis and require a guaranty, minus 10 GW held by participants that either don't have an affiliate or whose affiliate is not likely to provide the guaranty, which equals 16.1 GW assumed to receive a guaranty under the high guaranty scenario.

Parent / Affiliate Guarantee Assumptions

Market Participant (Parent) Sector	Assumption	
	Low GTY Case CSO Coverage (GW)	High GTY Case CSO Coverage (GW)
Energy Industry	13.8	14.1
Asset Management, Private Equity or Pension Fund Firms	0	2
Total	13.8	16.1

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As the chart shows, participants with CSOs and a guarantor (with adequate liquidity) from the energy industry were primarily²⁶ placed in the “Low GTY Case CSO Coverage” scenario and CSOs held by participants with a guarantor (with adequate liquidity) from the financial or non-energy industry were excluded in the “Low GTY Case CSO Coverage” scenario and assumed to provide liquidity support in the “High GTY Case CSO Coverage” scenario. Based on these scenarios, the ISO expects that between 13.8 GW (*i.e.*, the low guaranty case) and 16.1 GW (*i.e.*, the high guaranty case) of parent/affiliate guaranties, resulting in the need for additional collateral for 10 GW of CSO in the high guaranty case, and 12.3 GW of CSO in the low guaranty case.²⁷

²⁶ As the chart illustrates, approximately 0.3 GWs of CSOs held by participants with guarantors (with adequate liquidity) in the energy industry were not placed in the “Low GTY Case CSO Coverage” scenario because of uncertainty regarding whether such guarantors would provide a guaranty (*e.g.*, the ISO received feedback during the stakeholder process that an entity would not provide a guaranty or lack of available information).

²⁷ The 10 GW held by participants requiring additional collateral in the high guaranty scenario is the result of removing the 16.1 GW held by participants that are likely to receive a guaranty in the high scenario from the 26.1 GW held by participants that do not possess sufficient liquidity to cover their obligations. The 12.3 GW held by participants requiring additional collateral in the low guaranty scenario is the result of removing the 13.8 GW held by participants likely to receive a guaranty in the low scenario from the 26.1 GW held by participants that do not possess sufficient liquidity to cover their obligations.

1

2 As I noted above, the amount of guaranties provided will dictate the overall
3 collateral increases required by the FAP Revisions. The more guaranties provided,
4 the less incremental financial assurance resulting from the FAP Revisions because
5 using the liquidity of a guarantor will allow the participant to be assessed at a
6 lower risk category with lower collateral requirements. The ISO used the low and
7 high case guaranty scenarios (*i.e.*, the higher collateral increase and lower
8 collateral increase, respectively) to assess the impact of the proposal to FCM
9 participants and also used these assumptions to inform its analysis of cost
10 impacts.

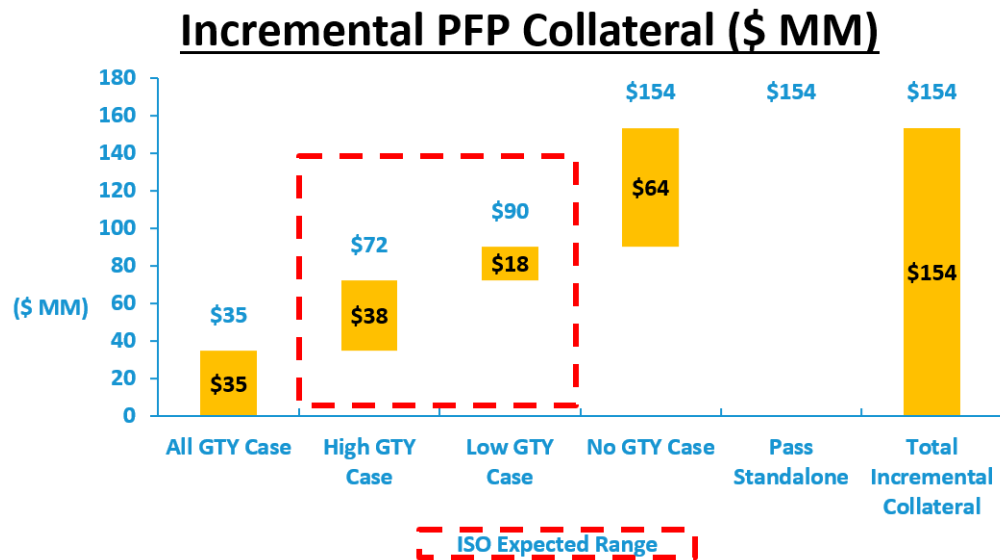
11

12 **Q: WHAT LEVEL OF INCREMENTAL COLLATERAL IS ASSOCIATED**
13 **WITH THESE HIGH AND LOW GUARANTY SCENARIOS?**

14 A: The ISO next converted the GW values in the four scenarios described above to
15 collateral costs by applying the revised FCM Delivery Financial Assurance
16 formula for the 2025 - 2026 Capacity Commitment Period to the GW CSO
17 amounts assumed to fall into the medium or high risk categories after the liquidity
18 test. The chart below illustrates the total average incremental collateral
19 requirements for the 2025 - 2026 Capacity Commitment Period associated with

1 the CSO GWs that would have been placed into the medium or high risk
 2 categories based on the liquidity test in the four scenarios described above.²⁸

3



4

5 Under the all guaranty scenario on average through the 2025 - 2026 Capacity
 6 Commitment Period, the total increase in collateral requirements would be \$35
 7 million. In the high case guaranty scenario, collateral would increase by a further
 8 \$38 million to \$72 million (total, on average over the Capacity Commitment
 9 Period). In the low case guaranty scenario, collateral would increase by \$90
 10 million in total, on average. If the ISO received no guaranties, the increase in
 11 collateral requirements would be \$154 million. As noted above, for the 2025 -
 12 2026 Capacity Commitment Period, the ISO expects that between 10 GW (*i.e.*,

²⁸ The values displayed in the table are based on a review of financial statements reporting as of December 31, 2023 as modeled for the 2025 - 2026 Capacity Commitment Period. The numbers used in this chart are rounded and, accordingly, may not sum (*e.g.*, increase of \$38 million in collateral in the “High GTY Case” plus the \$35 million from the “All GTY Case” sums to \$73 million, but is displayed as \$72 million in the chart).

1 the low guaranty case) and 12.3 GW (*i.e.*, the high guaranty case) will require
2 additional collateral as a result of the FAP Revisions, resulting in incremental
3 collateral between \$72 million and \$90 million in total on average during the
4 2025 - 2026 Capacity Commitment Period. This range is identified by the values
5 within the dotted red line in the chart above.

6

7 **Q: PLEASE EXPLAIN THE EXPECTED COST IMPACTS OF THE FAP**
8 **REVISIONS.**

9 A: Because the FAP Revisions will result in increased collateral requirements for
10 medium and high risk entities (as those entities' balance sheets do not reflect the
11 full risk of non-performance penalties), it is inherent that a subgroup of
12 participants will have increased costs as a result of the FAP Revisions either
13 because they must improve their balance sheet to reflect adequate corporate
14 liquidity or because they will need to post incremental financial assurance
15 amounts. Participants that are operating with adequate corporate liquidity levels
16 will not incur any incremental costs as they have already internalized the cost of
17 such liquidity requirements (*i.e.*, the risk of incurring non-performance penalties)
18 on their balance sheets.

19

20 Because participants that are assessed as medium or high risk may try to pass
21 through costs associated with incremental FCM Delivery Financial Assurance
22 requirements to consumers in future auctions, the ISO calculated a range of the
23 potential cost impact to consumers. The cost impact to consumers falls within an

1 estimated range depending on the total amount of additional collateral provided,
2 as cash deposited in a BlackRock account or a letter of credit (that may have
3 financing costs). Additionally, the potential cost impact is an estimate because it
4 does not account for the potentially offsetting benefit that participants may
5 receive as return on investments in their BlackRock accounts (currently, as of the
6 date of my testimony, approximately 5.0% annually). More specifically, medium
7 or high risk entities may be faced with financing costs that range from the cost of
8 capital associated with a debt (*i.e.*, liquidity facilities or term debt) or an equity
9 style issuance. As shown in the chart below, to evaluate the *potential* impact to
10 consumers, the ISO used cost ranges from the Net CONE updates for the
11 nineteenth Forward Capacity Auction, assuming that participants would incur
12 financing costs of 5.01% (after tax cost of debt) at the low end, to 8.96% (after tax
13 weighted average cost of capital) at the higher end.²⁹ The ISO believes that such
14 assumptions are particularly conservative, because corporate liquidity needs are

²⁹ The Net CONE costs assumptions are explained as follows: “As part of the design of the FCM, the ISO estimates the cost of developing new resources that may enter the market. These estimated entry costs, which are used for several inter-related purposes, come in two forms. The first is (gross) CONE, which is intended to reflect the total cost of developing a new resource, without any adjustment for the revenues that the resource might earn in supplying energy and ancillary services. The second is Net CONE, which is intended to reflect the total cost of developing a new resource, *i.e.*, gross CONE minus the variable profit the resource is expected to earn from supplying energy and ancillary services in the ISO-administered markets.” *See* ISO New England Targeted Adjustment to Certain Forward Capacity Market Parameters to Reflect the Minimum Offer Price Rule Elimination, Docket ER24-401-000 (Nov. 15, 2023) at p. 2; *see also* T. Schatzki & C. Gallimberti; Report to NEPOOL Markets Committee, Analysis of the ATWACC of New Entry for the ISO New England Forward Capacity Market (Aug. 10, 2023), at p. 4; a08a_mc_2023_08_08-10_fcm_netcone_updates_mopr_reforms_for_fca19_analysis_group_presentation.pdf (iso-ne.com) (summarizing recommended ATWACC). The pre-tax cost of debt can be derived by taking the 6.85% cost of debt value and factoring the tax rate: $6.85\% \times (100\% - 26.93\% \text{ tax rate}) = 5.01\%$ after tax cost of debt.

1 typically financed by acquiring relatively cheaper short-term credit facilities
2 rather than exclusively issuing more costly long-term debt and equity. At the
3 request of some participants, the ISO used these more conservative assumptions,
4 which presume that the corporate liquidity needs of these higher risk participants
5 are financed fully by long-term debt or a mixture of long-term debt and equity to
6 test the assertion that even assuming high cost assumptions, the overall potential
7 consumer cost impact of the FAP Revisions is immaterial. Using the Net CONE
8 assumptions, if the cost of the additional collateral was fully passed through by
9 the impacted CSO holders, the expected cost to consumers would range from
10 \$0.00003 to \$0.00007/KWh, which is appropriate as compared to the benefit of
11 mitigating socialized defaults by nonperforming, illiquid capacity sellers that may
12 impact the whole market (and therefore consumers).

FCA 16 Estimated Incremental Cost to Consumers Analysis

GTU Case	CSO Failing Liquidity Assessment (GW)	Real Time Load (GW)	Incremental FA (\$ MM)	After Tax Cost of Debt (%)	After Tax WACC (%)	Low End Cost (@ 5.01%) to Consumer (\$/kWh)	High End Cost (@ 8.96%) to Consumer (\$/kWh)
	A	B	C	D	E	(C/B*D/12/30/24)	(C/B*E/12/30/24)
High	10	13	\$72	5.01%	8.96%	\$0.00003	\$0.00006
Low	12	13	\$90	5.01%	8.96%	\$0.00004	\$0.00007

13
14 More specifically, the ISO determined the range of expected cost to consumers
15 (illustrated above) by utilizing the amount of expected incremental collateral
16 requirements as described earlier in my testimony (between \$72 million and \$90
17 million) and applying a cost of collateral based on cost ranges from the NET
18 CONE updates for the nineteenth Forward Capacity Auction (as noted above,
19 5.01% - 8.96%). Dividing the cost of collateral by the number of months in a
20 Capacity Commitment Period (12) turns the cost from a commitment period cost

1 into a cost per month. Finally, the total cost per month is divided over the total
2 kWh of Real-Time Load Obligation (the ISO utilized an average Real-Time Load
3 Obligation over a five year period since 2022 of approximately 13 GW). For
4 example, to calculate the low-end range of the cost to consumer, the following
5 calculation is performed: \$72 million multiplied by 5.01% divided by 12 months
6 divided by 30 days divided by 24 hours divided by 13,000,000 kW equals
7 \$0.00003/kWh. This same calculation can be applied to the high-end range by
8 swapping out the \$72 million of incremental collateral and the 5.01% cost for \$90
9 million of incremental collateral and a cost of 8.96% which will lead to the high-
10 end estimated cost to consumer of \$0.00007/kWh.

11
12 Importantly, the consumer cost analysis is based on a variety of assumptions and
13 is therefore illustrative and one data point, but not definitive. Multiple factors that
14 occur from the running of an auction or acquiring a CSO and the start of a
15 Capacity Commitment Period will ultimately affect the profitability or cost of
16 such CSO (*e.g.*, changes in market conditions) and whether a capacity seller
17 ultimately passes through costs in a future auction is based on a variety of factors,
18 such as if the capacity seller is the marginal seller.

19
20 Further, each capacity shortage event is unique and the level and extent of non-
21 performance penalties, relative to a capacity seller's position will intrinsically
22 vary. What is known from Winter Storm Elliott and other similar, recent events in
23 other regions, is that multiple capacity sellers may incur non-performance

1 penalties during extreme system conditions. This presents a known and significant
2 risk to the market pool from late or nonpayment of non-performance penalties.

3

4 **Q: DID THE ISO CONSIDER OTHER WAYS TO ADDRESS THE**
5 **IDENTIFIED RISK?**

6 A: Yes, the ISO considered several options when evaluating the risk of participants
7 with inadequate corporate liquidity and potential solutions to protect the market.
8 First, the ISO considered whether *any* action needed to be taken given that New
9 England's experience with capacity scarcity events has been somewhat limited,
10 with five events having occurred since implementation of PFP in 2018. However,
11 two of those five events were long enough in duration that, if they had been
12 assessed at the performance payment rate that will be effective on June 1, 2025,
13 penalties would have been assessed at or near the monthly stop-loss.³⁰ Therefore,
14 the ISO considered whether it was appropriate to continue with the status quo and
15 socialize defaults to the market (which would occur under the current Billing
16 Policy structure) if the risk materializes (*i.e.*, Capacity Scarcity Conditions
17 resulting in capacity sellers with inadequate corporate liquidity being unable to
18 pay their invoices).

³⁰ ISO New England Inc., Auction Reports and Supporting Data, Historical FCM Capacity Scarcity Condition Summaries (identifying Capacity Scarcity Conditions occurring on Sept. 3, 2018 (160 min), Dec. 24, 2022 (85 min), July 5, 2023 (30 min), June 18, 2024 (30 min), and Aug. 1, 2024 (110 min)) available at <https://www.iso-ne.com/isoexpress/web/reports/auctions/-/tree/fcm-hist-csc>. As discussed above, under the June 1, 2025 Performance Payment Rate, the monthly stop-loss is on average reached after between 1.5 and 1.9 hours of Capacity Scarcity Condition intervals depending on the month in which the event occurs.

1

2 The ISO also considered a version of the current proposal where the ISO would
3 conduct a periodic corporate liquidity risk assessment, but that the assessment
4 would only be based on the liquidity of the FCM participant on a standalone basis
5 and collateral requirements would increase based on that standalone assessment.

6 As I explain above, this concept ignores the reality that many participants are part
7 of larger corporate families with entities that do have adequate liquidity where the
8 corporate treasury teams manage cash flows at the parent or holding company
9 level. Therefore, this iteration of the proposal would be costly for the overall
10 market because it would result in increased collateral requirements for a much
11 wider group of participants.

12

13 Furthermore, the ISO considered (including as part of the stakeholder process and
14 in response to stakeholder suggestions) whether other market based and/or non-
15 collateral approaches could potentially mitigate the risk introduced by capacity
16 sellers with inadequate corporate liquidity. For example, changing the way non-
17 performance penalties are billed so as to allow participants a longer time to pay
18 off non-performance penalties may ease short-term liquidity concerns, but
19 ultimately doesn't account for the fact that if an entity is illiquid and unable to pay
20 its contractual CSO obligations, stretching out the payment period may only
21 exacerbate the financial loss incurred by the pool (*e.g.*, as the ISO would lose
22 valuable set-off rights related to any remittances to the participants and/or the
23 problem could grow if additional Capacity Scarcity Conditions occur during the

1 payoff period) and incentivize the wrong behavior (*i.e.*, not planning for potential
2 financial obligations). Additionally, a longer payment period would require the
3 ISO to short pay others in the market until such time as the full non-performance
4 penalties are collected.

5
6 Another market-based concept that the ISO considered was whether changes to
7 CSO shedding, termination, or bilateral transactions could appropriately address
8 the risk. Generally, the idea is that if there are more opportunities to trade out of a
9 CSO, the less risk there is of incurring additional non-performance penalties, if a
10 participant takes advantage of such opportunities. Specifically, an amendment
11 (that ultimately failed to receive enough stakeholder support) sponsored by the
12 New England Power Generators Association (“NEPGA”) would have eliminated
13 the current Capacity Supply Obligation Bilateral submission window to allow
14 participants the ability to submit such transactions up to 5 days prior to the
15 obligation month (and for the ISO to complete its review of such transaction
16 within one day). As the ISO explained, such amendment would require a deeper
17 market analysis by the ISO and would require a substantial overhaul to many ISO
18 systems to accommodate such change.³¹ But more importantly, putting any
19 market design and/or implementation questions aside, such an amendment
20 fundamentally would not change that the ISO needs to collateralize a participant’s

³¹ ISO New England, Inc., Memorandum to NEPOOL Markets Committee, Concerns with NEPGA’s CSO Bilateral and Monthly Reconfiguration Auction Proposals (Aug. 6, 2024); available at https://www.iso-ne.com/static-assets/documents/100014/a00_mc_2024_08_06_nepga_amendments_response.pdf.

1 position as it exists in real time. The ability to more frequently, or closer to an
2 obligation month trade out of a position, does not change that the ISO must
3 collateralize positions as they currently exist. Appropriate collateral
4 methodologies, including the FCM Delivery Financial Assurance calculation,
5 adjust as a position adjusts not based on the assumption that the position *could*
6 change.

7
8 Ultimately, within the current ISO market structure, the underlying credit risk that
9 the ISO identified (participants with inadequate corporate liquidity to satisfy non-
10 performance penalties) can only be meaningfully addressed by increasing
11 collateral requirements in a way that addresses the underlying risk. Participants
12 can (and should) actively manage their CSO positions, but the ability to shed or
13 trade out of a position does not affect how the ISO needs to collateralize the
14 existing position in real time.

15

16 **III. CURRENT CALCULATION METHODOLOGY FOR FCM DELIVERY** 17 **FINANCIAL ASSURANCE**

18 **Q: HOW IS FCM DELIVERY FINANCIAL ASSURANCE CURRENTLY**
19 **CALCULATED?**

20 A: The current FCM Delivery Financial Assurance is calculated using the following
21 formula:

22
$$[DFAMW \times PE \times \max[(ABR - CWAP), 0.1] \times SF] - IMC - MCC$$

23 I will explain each element of the formula in detail below.

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Q: PLEASE EXPLAIN THE PORTION OF THE FCM DELIVERY FINANCIAL ASSURANCE FORMULA THAT ADDRESSES CLEARING RISK.

A: The first of the three risks that I mentioned above is clearing risk – the risk that a participant does not timely discharge settled payment obligations that have already been incurred. Two components of the FCM Delivery Financial Assurance formula address clearing risk: the MCC and IMC variables. The MCC or “monthly capacity charge” is an amount equal to all capacity performance payments calculated in accordance with Section III.13.7.2 of the Tariff (which may be payments or charges) incurred in previous months, but not yet billed. This value is estimated on the first day of the current delivery month and is replaced with the actual settled value when settlement is complete. By requiring the posting of the monthly capacity charge, if a participant fails to pay its invoice on time, the ISO can still meet its obligations to all other cleared positions by drawing against the participant’s posted collateral.³² Failure to post the required financial assurance results in the activation of the ISO’s suspension protocols until such financial assurance default is cured.

³² As explained throughout my testimony, the risk that the FAP Revisions seek to address is the risk that participants may not have enough liquidity to post collateral pursuant to the MCC (or IMC) variable once penalties are incurred.

1 The “IMC” or “intra-month collateral” variable collateralizes incurred non-
2 performance penalties within the month they are incurred by adding to, in the case
3 of a performance penalty, or subtracting from, in the case of a performance credit,
4 a participant’s FCM Delivery Financial Assurance. The IMC is an estimated
5 value to reflect next month’s expected non-performance penalties related to the
6 month in which the Capacity Scarcity Condition occurs. Typically, upon the
7 occurrence of a Capacity Scarcity Condition, provisional operating performance
8 scores are available to a participant in its Market Information Server (MIS) report
9 after approximately five business days. The IMC calculates three days after the
10 publication of this report to allow participants adequate time to increase their
11 collateral. Once a new month begins, the MCC variable collateralizes any
12 penalties that have been incurred during the prior month but not yet billed, and the
13 IMC variable for that month resets accordingly.

14
15 **Q: PLEASE EXPLAIN THE PORTION OF THE FCM DELIVERY**
16 **FINANCIAL ASSURANCE FORMULA THAT ADDRESSES CREDIT**
17 **RISK.**

18 A: The second of the three risks that I mentioned is credit risk – the risk that a
19 participant will default on payment obligations arising from negative capacity
20 payments associated with its CSO(s). This risk is addressed in the portion of the
21 FCM Delivery Financial Assurance formula that states: $DFAMW \times PE \times$
22 $\max[(ABR - CWAP), 0.1]$. I will explain each element of this portion of the
23 formula below.

1

2 **Q: WHAT DOES THE “DFAMW” VARIABLE REPRESENT?**

3 A: The “DFAMW,” or “delivery financial assurance MW,” term represents the
4 quantity of MWs on which a participant must submit FCM Delivery Financial
5 Assurance. In other words, DFAMW is the total quantity of MWs of a
6 participant’s resources that are subject to a CSO in the month. This quantity of
7 MWs serves as the basis for the credit risk portion of the FCM Delivery Financial
8 Assurance calculation. The DFAMW is equal to the sum of the CSOs of all
9 resources in a participant’s portfolio for the month, excluding the CSO of any
10 resource that has reached the annual stop-loss amount and excluding any energy
11 efficiency resource. In no case will DFAMW be less than zero.

12

13 **Q: HOW IS THE “PE” VARIABLE CALCULATED?**

14 A: “PE,” or “potential exposure” is the dollar per MW value that will apply in
15 calculating the participant’s FCM Delivery Financial Assurance. Conceptually,
16 this value is the maximum monthly financial net loss a participant is exposed to
17 and is approximately similar in value to the payment they would be required to
18 make. As such, for a given delivery month, this value forms the approximate
19 upper bound on credit default exposure. PE is calculated monthly for a
20 participant’s portfolio as the difference between the portfolio’s CSO weighted
21 average Forward Capacity Auction Starting Price and the portfolio’s CSO
22 weighted average capacity price (*i.e.*, clearing price), excluding the CSO of any
23 resource that has reached the annual stop-loss amount and any energy efficiency

1 resources. The amount the participant would be required to pay is driven by the
2 total non-performance penalties incurred during the month as reduced by
3 remittance of the weekly Capacity Base Payment.
4

5 **Q: PLEASE EXPLAIN THE “ABR” AND “CWAP” VARIABLES AND HOW**
6 **THEY ARE USED WITHIN THE FORMULA?**

7 A: “max[(ABR – CWAP), 0.1]” reflects the performance of a participant’s capacity
8 resources. Under PFP, a resource is not held to the standard of providing the full
9 amount of its CSO in all cases. Rather, the amount of capacity that a resource
10 provides during a Capacity Scarcity Condition is measured against the ratio of the
11 total amount of load plus the reserve requirement, divided by the total amount of
12 CSOs. This ratio is called the Capacity Balancing Ratio. Because capacity
13 performance payments are linked to the Capacity Balancing Ratio, FCM Delivery
14 Financial Assurance must be as well. The term “max[(ABR – CWAP), 0.1]” is the
15 minimum percentage of the calculated potential exposure (PE) that must be
16 posted as financial assurance given assumptions regarding the average system-
17 wide Capacity Balancing Ratio and on the performance of a participant’s capacity
18 resources.
19

20 ABR, or “average balancing ratio,” is the duration-weighted average of all of the
21 system-wide Capacity Balancing Ratios calculated for each system-wide Capacity
22 Scarcity Condition occurring in the relevant group of months in the three Capacity
23 Commitment Periods immediately preceding the current Capacity Commitment

1 Period and those occurring in the months within the relevant group that are prior
2 to the current month of the current Capacity Commitment Period. Three separate
3 groups of months are used for this purpose: June through September, December
4 through February, and all other months.

5
6 CWAP, or “capacity weighted average performance,” is the capacity weighted
7 average performance of a participant’s portfolio during Capacity Scarcity
8 Conditions based on historical performance data from the prior three Capacity
9 Commitment Periods and operating performance data from the relevant group of
10 months within the current Capacity Commitment Period on a weighted average
11 basis. As I stated above, the term “ $\max[(ABR - CWAP), 0.1]$ ” is the minimum
12 percentage of the calculated potential exposure (PE) that must be posted as
13 financial assurance given assumptions regarding the average system-wide
14 Capacity Balancing Ratio and on the performance of a participant’s capacity
15 resources. Generally, the better a participant’s resources have performed, the
16 higher its CWAP value will be, and the lower the value $(ABR - CWAP)$ becomes.
17 The worse a participant’s resources have performed, the lower its CWAP value
18 will be, and the higher the value $(ABR - CWAP)$ becomes. The higher the value
19 $(ABR - CWAP)$, the more financial assurance the participant must post for its
20 portfolio.

21
22 Conceptually, CWAP is simply the amount of capacity provided during Capacity
23 Scarcity Conditions divided by the amount of capacity obligated. Specifically, for

1 each resource in a participant's portfolio, excluding any resource that has reached
2 the annual stop-loss amount or are considered energy efficiency resources, and
3 excluding from the remaining resources the resource having the largest CSO in
4 the month, the resource's CSO is multiplied by the average performance of the
5 resource. The CWAP is the sum of all such values, divided by a participant's
6 DFAMW. If the DFAMW is zero, then the CWAP is set equal to one.

7
8 The average performance of a resource is the Actual Capacity Provided during
9 Capacity Scarcity Conditions divided by the product of the resource's CSO and
10 the equivalent hours of Capacity Scarcity Conditions in the relevant group of
11 months in the three Capacity Commitment Periods immediately preceding the
12 current Capacity Commitment Period and those occurring in the months within
13 the relevant group that are prior to the current month of the current Capacity
14 Commitment Period. Three separate groups of months are used for this purpose:
15 June through September, December through February, and all other months.
16 Unless (and until) data exists to calculate the CWAP, the temporary average
17 performance for gas-fired steam generating resources, combined-cycle
18 combustion turbines and simple-cycle combustion turbines equals 0.90; the
19 temporary average performance for coal-fired steam generating resources equals
20 0.85; the temporary average performance for oil-fired steam generating resources
21 equals 0.65; the temporary average performance for all other resources equals
22 1.00.

23

1 Finally, the maximization function of the credit risk portion of the formula (*i.e.*,
2 $\max[(ABR - CWAP), 0.1]$) ensures that at least 10% of potential exposure will be
3 included in the FCM Delivery Financial Assurance calculation to account for the
4 fact that this portion of the formula is based on historical data which may differ
5 from future performance. More specifically, as I explained above, generally, the
6 better a participant's resources perform, the higher its CWAP value will be, and
7 the lower the value $(ABR - CWAP)$ becomes. The worse a participant's resources
8 perform, the lower its CWAP value will be, and the higher the value $(ABR -$
9 $CWAP)$ becomes. For a resource with a CWAP value that approaches or exceeds
10 ABR, the value $(ABR - CWAP)$ will become very low, or possibly even negative.
11 If this value reached zero, the credit risk portion of the FCM Delivery Financial
12 Assurance would also become zero. Although this would occur because a
13 participant's resources were performing well, even those portfolios with a CWAP
14 value higher than the ABR are not completely without risk. The ABR and the
15 CWAP are based on historical data, and if future performance is worse, holding
16 some financial assurance associated with credit risk is a reasonable and prudent
17 protection. For this reason, the maximization function included in the term
18 " $\max[(ABR - CWAP), 0.1]$ " ensures that the value of that term will not be below
19 0.10, and hence, at least ten percent of the potential exposure amount will be
20 included in the FCM Delivery Financial Assurance amount.

Q: WHY ARE CERTAIN RESOURCES WITHIN A MARKET PARTICIPANT'S PORTFOLIO EXCLUDED FROM THE CWAP CALCULATION?

A: As noted above, when determining CWAP, any resource that has reached the annual stop-loss amount is excluded because it is no longer exposed to performance payments or penalties during the remainder of the Capacity Commitment Period. Similarly, energy efficiency resources are not included. The CWAP calculation also excludes, from the remaining resources after the elimination of resources that have reached the annual stop-loss and those associated with energy efficiency, the resource having the largest CSO in the month. Practically, this means that single plant resources are assumed to be fully off-line during Capacity Scarcity Conditions and that FCM Delivery Financial Assurance is based on the assumption that each participant's largest (or only) resource is unavailable during Capacity Scarcity Conditions. Currently, approximately 50% of CSO volumes in the New England Markets are collateralized based on the assumption that they are unavailable. For the remaining volumes, collateral is collected assuming the resources perform in line with the weighted average historical performance data from the past three Capacity Commitment Periods and those occurring in the months within the relevant group that are prior to the current month of the current Capacity Commitment Period.

1 This design feature (*i.e.*, excluding the largest resource) was part of the original
2 PFP collateral design accepted by the Commission to ensure that an appropriate
3 risk balance was struck and that portfolios with multiple resources weren't
4 unreasonably over-collateralized. A portfolio with multiple resources provides
5 some diversification benefits, with negative performance payments to one
6 resource offset by positive payments to another. As a general matter, the portfolio
7 is exposed to the greatest loss when the largest resource fails to perform. The
8 failure of the largest resource also serves as a reasonable proxy for below-average
9 performance by other resources in the portfolio. Assuming that all resources in a
10 portfolio fail to perform, or perform substantially below average, would
11 overestimate the degree to which any portfolio of resources actually faces
12 negative performance payments. Given the composition of resource portfolios in
13 New England, assuming that the largest resource in a multiple resource portfolio
14 does not perform but that the balance of the portfolio performs as expected during
15 shortage conditions provides a reasonable protection against participant default
16 under extreme non-performance scenarios.

17
18 **Q: PLEASE EXPLAIN THE PORTION OF THE FCM DELIVERY**
19 **FINANCIAL ASSURANCE FORMULA THAT ADDRESSES**
20 **LIQUIDATION RISK.**

21 A: The third of the three risks that I mentioned is liquidation risk – the risk that
22 losses may continue to accrue against a CSO position post default up to the annual
23 stop-loss in any Capacity Commitment Period before a participant is able to close

1 the position, and the risk that the defaulted position, when closed, is sold at a loss.
2 Liquidation risk is addressed in the “SF,” or “scaling factor,” term included in the
3 formula. The scaling factor is a month-specific multiplier, as follows:

- 4 • June and December: 2.000;
- 5 • July and January: 1.732;
- 6 • August and February: 1.414; and
- 7 • all other months: 1.000.

8 More specifically, the risk that losses may continue to accrue against a CSO
9 position post default (up to the annual stop-loss) before a participant is able to
10 close the position is not uniform across all months of the Capacity Commitment
11 Period. The likelihood of a severe scarcity event is different each month of the
12 year. As explained in my testimony in ER24-661-000, the initial scaling factors
13 were based on review of historical data (2010-2013) that showed that the risk of
14 scarcity is highest in the summer months (June – September), followed by the
15 winter months (December – February), and lowest in the shoulder months (the
16 other months, October – November and March – May). Based on the ISO’s
17 updated risk analysis and study of the operational impact of extreme weather
18 events showing the increased risk of Capacity Scarcity Conditions during winter
19 months, the winter scaling factors are now as high as the summer scaling
20 factors.³³ The summer and winter scaling factors also reflect that there are

³³ See December FCM Delivery FA Filing, Nolan Testimony at pp. 12-17, 21-24.

1 consecutive high-risk months in a row; should a resource default early in the
2 summer season, for example, there is the risk that it will accrue additional losses
3 in subsequent months due to the higher potential for additional Capacity Scarcity
4 Conditions. In large measure this risk exists because a defaulted CSO position is
5 not terminated from the market. Rather, the participant must close the position
6 through a bilateral contract or reconfiguration auction, or continue to be exposed
7 to charges up to the annual stop-loss.

8

9 **IV. DESCRIPTION OF THE FAP REVISIONS**

10 **Q: PLEASE PROVIDE AN OVERVIEW OF THE FAP REVISIONS.**

11 A: The FAP Revisions address four main topics: (1) the new corporate liquidity
12 assessment (including provisions related to Affiliate guaranties); (2) the new
13 collateral methodologies that apply based on the outcome of the new corporate
14 liquidity assessment; (3) how the new corporate liquidity assessment will interact
15 with the existing capitalization requirements in the FAP; and (4) improvements to
16 the existing IMC variable in the FCM Delivery Financial Assurance formula.

17

18 **Q: WHEN WILL PARTICIPANTS BE IMPACTED BY THE FAP**
19 **REVISIONS?**

20 A: The new corporate liquidity assessment and the resulting collateral requirements
21 based on such assessment will apply to all FCM participants holding a CSO as of
22 June 1, 2025 (for the 2025 - 2026 Capacity Commitment Period) and all Capacity

1 Commitment Periods thereafter. The improvements to the IMC variable will
2 become operative as of the proposed effective date, February 1, 2025.

3
4 After observing the disruptions to the PJM market following Winter Storm Elliott
5 (December 2022) and the ISO's review of the corporate liquidity of all capacity
6 sellers with Capacity Supply Obligations for the 2025 - 2026 Capacity
7 Commitment Period, the ISO concluded that the risk of multiple capacity sellers
8 potentially defaulting on penalty payments is material and must be addressed for
9 the upcoming Capacity Commitment Period (beginning June 1, 2025) due to the
10 scale of the underlying problem. Further, this risk is borne by the market pool
11 because non-performance penalty payments are not segregated from other market
12 segments. The key lesson learned from the PJM disruptions is that the financial
13 repercussions observed in PJM could have been prudently mitigated with a credit
14 risk management strategy to address the risks posed by capacity sellers with
15 inadequate corporate liquidity upfront. The PFP assessment of non-performance
16 penalties is specific to the capacity sellers holding CSOs for an applicable
17 Capacity Commitment Period and can be calculated in advance and adequately
18 planned for from a corporate liquidity perspective. The FAP Revisions will
19 address the risk upfront (beginning with the 2025 - 2026 Capacity Commitment
20 Period) rather than waiting for a Winter Storm Elliott-type event to cause
21 significant disruption to the New England Markets. This approach will
22 prospectively alleviate risk posed by capacity sellers with inadequate corporate
23 liquidity holding CSOs for the 2025 - 2026 Capacity Commitment Period and

1 thereafter, rather than continuing to expose the entire market pool to risk arising
2 from capacity sellers that default after non-performance penalties are assessed.

3

4 **A. CORPORATE LIQUIDITY ASSESSMENT**

5 **Q: WHAT IS THE CORPORATE LIQUIDITY ASSESSMENT?**

6 A: Beginning on June 1, 2025 (the start of the 2025 - 2026 Capacity Commitment
7 Period) the ISO will perform a “Corporate Liquidity Assessment” on each FCM
8 participant based on financial statements submitted to the ISO prior to that date to
9 determine the appropriate liquidity risk assessment category for such participant
10 (*i.e.*, low risk, medium risk, or high risk).

11

12 Generally, the Corporate Liquidity Assessment looks at a participant’s CSO
13 profile over the next six months (beginning with the current delivery month) and
14 identifies the three largest monthly stop-losses over that six-month period. If the
15 participant’s “Available Corporate Liquidity” is greater than or equal to the sum
16 of the three largest monthly stop-losses, the participant will be assessed as low
17 risk. If corporate liquidity is greater than or equal to the sum of the two largest
18 monthly stop-losses, the participant will be assessed as medium risk, and if
19 corporate liquidity is less than the sum of the two largest monthly stop-losses, the
20 participant will be assessed as high risk.

21

22 Because the ISO recognizes that many participants are part of a corporate family
23 where cash flows generated by capacity sellers (*i.e.*, the entity that is the market

1 participant) are regularly swept up to equity owners, many participants do not
2 have adequate liquidity on a standalone basis. As a result, the FAP Revisions
3 provide that the ISO will conduct the Corporate Liquidity Assessment at a parent
4 or affiliate level (*i.e.*, using the financial statements of such parent or affiliate), if
5 such parent or affiliate provides a guaranty to the ISO guaranteeing the payment
6 of the participant's Capacity Performance Payments (*i.e.*, PFP or non-
7 performance penalties). I will explain the use of guaranties in this context in more
8 detail below.

9

10 **Q: PLEASE EXPLAIN HOW THE ISO ARRIVED AT THE THREE RISK**
11 **ASSESSMENT CATEGORIES (*i.e.*, LOW, MEDIUM, AND HIGH).**

12 A: The ISO initially considered conducting the Corporate Liquidity Assessment as a
13 pass/fail assessment, but decided it was prudent to add more granularity by
14 breaking the assessment into three risk categories. This allows for a more nuanced
15 recognition (by virtue of different amounts of additional collateral being added for
16 medium and high risk entities) that corporate liquidity risk falls along a spectrum.
17 Some entities may have razor thin corporate liquidity profiles (*i.e.*, not enough
18 cash to cover *any* potential non-performance penalties above what is posted for
19 FCM Delivery Financial Assurance), while others may have some liquid assets,
20 but not enough to ensure that they have appropriately accounted for the risk that
21 comes with acquiring and holding a CSO.

22

1 The ISO categorized participants, from a corporate liquidity risk perspective,
2 based on their ability to pay their maximum non-performance penalties in
3 monthly increments. The reason for this is that, for the 2025 - 2026 Capacity
4 Commitment Period, it will only take a short duration event of approximately two
5 hours, on average, for participants to incur their maximum penalties in a single
6 month assuming they do not perform as dispatched during Capacity Scarcity
7 Conditions. Therefore, it made sense for the corporate liquidity risk categories to
8 be driven by the ability of participants to demonstrate that they can at least fund
9 their exposure to non-performance penalty payments in increments of a month so
10 that the ISO can settle the market on a timely basis when the monthly invoices
11 become due. Any payment shortfall, regardless of size, requires the ISO to follow
12 its short-pay protocols outlined in the Billing Policy. Consequently, participants
13 that are assessed in the low risk category can adequately demonstrate their ability
14 to cover at least three months of maximum potential penalty payments (*i.e.*, the
15 approximate duration of a high risk season) based on their access to cash
16 internally (*i.e.*, cash on hand or securities that can be converted readily into cash)
17 or externally (*i.e.*, available committed revolving lines of credit with banks). The
18 ISO chose three months as the minimum amount of months that a participant
19 needs to be able to demonstrate it has reserved sufficient corporate liquidity to
20 cover potential penalty payments in order to be assessed in the “low risk”
21 category, and not the approximately five months it would take to reach the annual
22 stop-loss, because the ISO has the contractual ability to set-off payments to
23 market participants to mitigate nonpayment risk related to any additional

1 subsequent months during which Capacity Scarcity Conditions could occur.³⁴
2 More specifically, for the 2025 - 2026 Capacity Commitment Period, the annual
3 stop-loss is reached after approximately five months during which Capacity
4 Scarcity Conditions occur and participants also hit their monthly stop-losses
5 during those months. The ISO has also taken into account the increases in
6 corporate liquidity as a result of the capacity payments that are paid to
7 participants during the Capacity Commitment Period which approximate to two
8 monthly stop-losses. Hence, when you combine the minimum three months of
9 corporate liquidity on a participant's balance sheet with the additional liquidity
10 afforded by the future capacity base payments (*i.e.*, approximately two months
11 during the 2025 - 2026 Capacity Commitment Period), such participants pose low
12 risk to the market in terms of both nonpayment risk and the amount of potential
13 socialized defaults to the market regarding non-performance payments.

14
15 The medium risk category was introduced to identify higher risk participants that
16 are able to demonstrate corporate liquidity to cover less than three months but
17 more than two months of potential penalty payments. Similarly, the high risk
18 category was introduced to identify the highest risk participants that cannot
19 demonstrate enough corporate liquidity on their balance sheet to cover just two
20 months of their maximum potential penalty payments as there is a higher

³⁴ See FAP Section XI.C (explaining use of setoffs); Billing Policy Section 3.3(b) (explain use of setoffs). Importantly, as noted in note 20, the ISO loses its ability to set off once a participant files for bankruptcy.

1 probability of Capacity Scarcity Conditions occurring during two months of the
2 Capacity Commitment Period compared to five months, for example, which
3 would aggregate approximately up to the annual stop-loss.
4

5 **Q: PLEASE DESCRIBE EACH COMPONENT OF THE CORPORATE**
6 **LIQUIDITY ASSESSMENT.**

7 A: As mentioned above, the Corporate Liquidity Assessment compares a
8 participant's "Available Corporate Liquidity" to the sum of its three largest
9 monthly stop-losses (defined as the "Applicable Monthly Stop-losses") over a
10 "Calculation Period" of six months.

11
12 The Available Corporate Liquidity calculation is primarily focused on the ability
13 of a participant to satisfy its PFP/non-performance penalty payment obligations
14 should they arise during a Capacity Commitment Period. Therefore, Available
15 Corporate Liquidity is the sum of a participant's: (a) unrestricted cash and cash
16 equivalents; (b) marketable securities and money market instruments; (c) undrawn
17 committed credit facilities not expiring within three months of the date of the
18 applicable financial statements; and (d) excess financial assurance.³⁵ In other

³⁵ The FAP Revisions use the phrase "excess financial assurance" for simplicity, but then elaborates to explain that "excess financial assurance" means any financial assurance provided by the participant covering its FCM Delivery Financial Assurance obligations *plus* any financial assurance provided by the participant in excess of its total Financial Assurance Obligations. *See* Revised FAP Section VII.A.2.

1 words, the components of the test are all liquid assets that can be used to satisfy
2 short-term obligations, such as non-performance penalties.

3

4 The Calculation Period is the current delivery month through the following five
5 consecutive months and the “Applicable Monthly Stop-losses” are determined in
6 accordance with Section III.13.7.3.1 of Market Rule 1 (and aggregated for each
7 resource in a participant’s portfolio).

8

9 The first three components of “Available Corporate Liquidity” were chosen
10 because they align with standard measures of corporate liquidity which look at an
11 entity’s ability to pay short-term obligations. Therefore, the sum of a participant’s
12 cash and cash equivalents, marketable securities and money market instruments,
13 and undrawn committed credit facilities that are not expiring within three months
14 all are assets that can be used (or easily converted) to satisfy incurred non-
15 performance penalty obligations. “Undrawn committed credit facilities” are
16 included in a participant’s Available Corporate Liquidity so long as such facilities
17 are committed (*i.e.*, a bank is contractually obligated to loan) and if such facility
18 is not expiring within three months (*i.e.*, the time prior to the next quarter, when
19 the ISO will receive updated financial statements). In other words, the assessment
20 is looking at credit facilities that can be used to satisfy short-term obligations,
21 such as non-performance penalties. If a credit facility is expiring within the next
22 three months (from when that component of the Available Corporate Liquidity is

1 assessed), such facility may not be available if and when a participant incurs non-
2 performance penalties.

3

4 The fourth element of “Available Corporate Liquidity”, excess financial
5 assurance, is included because most FCM participants will have some financial
6 assurance posted with the ISO to cover their obligations incurred in the New
7 England Markets, either in the form of money in a BlackRock account or a letter
8 of credit issued to the ISO. So, for purposes of Available Corporate Liquidity,
9 financial assurance (*i.e.*, letters of credit or funds in a BlackRock account) held by
10 the ISO covering the participant’s FCM Delivery Financial Assurance and any
11 financial assurance greater than a participant’s total financial assurance
12 obligations under the FAP are included because such security can be applied to
13 non-performance penalties. The ISO does not propose to include all posted
14 financial assurance when calculating Available Corporate Liquidity because other
15 than excess financial assurance and financial assurance specifically to meet the
16 FCM Delivery Financial Assurance obligations, the amount posted is to
17 collateralize other market obligations.

18

19 **Q: HOW WILL THE VALUES IN THE AVAILABLE CORPORATE**
20 **LIQUIDTY CALCULATION BE DETERMINED?**

21 A: Other than excess financial assurance, the values in the Available Corporate
22 Liquidity calculation will be as reflected on the financial statements provided by
23 the market participant for the most recent period (or it’s guarantor, as explained

1 below) and calculated in accordance with international accounting standards or
2 generally accepted accounting principles in the United States at the time of
3 determination consistently applied.
4

5 The FAP Revisions provide that FCM participants will be required to submit to
6 the ISO, on a quarterly basis (or more frequently, as explained below), its audited
7 or unaudited balance sheet or equivalent financial statements, which shall show
8 sufficient detail for the ISO to assess the participant's Available Corporate
9 Liquidity.
10

11 Because financial statements vary in presentation, the FAP Revisions provide that
12 the financial statements must be accompanied by a certificate from a Senior
13 Officer (as defined in Section I.2.2 of the Tariff as an officer of the subject entity
14 with the title of vice president (or similar office) or higher, or another officer
15 designated in writing to the ISO by that officer). The certificate must include the
16 values for: (a) unrestricted cash and cash equivalents; (b) marketable securities
17 and money market instruments; and (c) undrawn committed credit facilities not
18 expiring within three months of the date of the applicable financial statements.

19 The certificate must also certify to the accuracy of the financial statements and, if
20 an attestation was made by an independent accounting firm, the certificate must
21 contain the level of attestation made (if no attestation was made by an
22 independent accounting firm, then no such indication is required). This
23 certification provides the ISO with assurance that the financial statements it is

1 relying on to conduct the Corporate Liquidity Assessment are accurate. By
2 requiring a certificate from a Senior Officer with the relevant information
3 included and appropriate certifications, the ISO anticipates that administrative
4 review time will be reduced (because information from all participants will be
5 provided in a standardized format) and it provides the ISO with some assurance
6 regarding the integrity of the data.

7
8 To ensure that participants clearly understand the reporting requirement and to
9 ease the administrative burden of the ISO receiving officers' certificates in
10 various formats, the FAP Revisions provide that the ISO will post a generally
11 acceptable "clean" form of certificate on its website.

12
13 As I noted above, if a participant is providing financial statements for the
14 Corporate Liquidity Assessment, such statements must be submitted on a
15 quarterly basis. However, participants that fall into the medium or high risk
16 categories can opt into a more frequent, monthly reporting structure, in which
17 case such statements must be provided monthly. Financial statements provided on
18 a quarterly basis must be submitted within 10 days of such statements becoming
19 available and within 65 days after the end of the applicable fiscal quarter.
20 Financial statements provided on a monthly basis are required to be provided to
21 the ISO within 20 days after the end of the prior month.

22

1 **Q: HOW FREQUENTLY IS THE CORPORATE LIQUIDITY ASSESSMENT**
2 **PERFORMED?**

3 A: The Corporate Liquidity Assessment will be updated daily in the Financial
4 Assurance Management (FAM) system, because one component of the
5 evaluation, excess financial assurance, updates in real time as participants'
6 collateral changes. The other values that are derived from financial statements
7 will be updated on a quarterly or monthly basis depending on the reporting
8 frequency that the participant chooses. The FAP Revisions also provide that the
9 ISO will review the financial statements (and accompanying officer's certificates)
10 on a rolling basis and will calculate the Available Corporate Liquidity within a
11 reasonable time period which shall not exceed 30 Business Days. This will allow
12 the ISO adequate time to diligently review the information provided by
13 participants and will mitigate a potential situation where a large volume of
14 participant submissions are received at month's or quarter's end, all requiring
15 simultaneous review.

16
17 **Q: HOW WILL THE ISO HANDLE THE FIRST BATCH OF FINANCIAL**
18 **STATEMENTS FOR THE JUNE 1, 2025 START OF THE CAPACITY**
19 **COMMITMENT PERIOD?**

20 A: As noted above, the FAP Revisions provide that the ISO will review financial
21 statements and update the Corporate Liquidity Assessment on a rolling basis. This
22 rolling basis review is particularly important for the first time that the ISO
23 receives information submitted per the FAP Revisions because it will be each

1 FCM participant’s first time submitting such information. To avoid multiple
2 participants being assessed as a higher risk category as a result of the ISO having
3 not yet reviewed the financial statements (because, as explained below, a value of
4 \$0.00 will be used until financial statement review is complete), the ISO will
5 work with participants ahead of the June 1, 2025 to notify them of the upcoming
6 requirement and to encourage participants to submit their financial statements and
7 guaranties (if applicable) early to allow the ISO enough time to review such
8 documents.

9

10 **Q: WHY DO THE FAP REVISIONS PROVIDE THE OPTION OF**
11 **ALLOWING PARTICIPANTS TO SUBMIT FINANCIAL STATEMENTS**
12 **ON A MONTHLY BASIS?**

13 A: Because entities that are assessed as medium or high risk will have increased
14 financial assurance requirements, participants may wish to have the values
15 derived from their financial statements for the Corporate Liquidity Assessment
16 updated more frequently than quarterly, specifically if they expect their liquidity
17 position to improve. Therefore, the ISO proposes providing the option of allowing
18 participants to submit monthly financial statements (on the timeline I outline
19 above and with the appropriate officer’s certificate), provided that if a participant
20 elects to submit financial statements on a monthly basis, that election must be for
21 a minimum period of six continuous months during which they are assessed at a
22 lower risk (*e.g.*, from high risk to medium risk, medium risk to low risk, or high
23 risk to low risk). This minimum election period is to avoid a participant

1 strategically submitting a monthly financial statement when its corporate liquidity
2 is adequate knowing that its liquidity may be materially worse the following
3 month because of a large obligation or liability.
4

5 **Q: WHAT HAPPENS IF A PARTICIPANT DOES NOT SUBMIT**
6 **FINANCIAL STATEMENTS WITHIN THE TIME PERIODS REQUIRED**
7 **OR SUCH FINANCIAL STATEMENTS DO NOT COMPLY WITH THE**
8 **REQUIREMENTS OF THE FINANCIAL ASSURANCE POLICY?**

9 A: Per the FAP Revisions, participants may choose not to submit financial statements
10 for the Corporate Liquidity Assessment and such failure to provide will not
11 trigger a default under the FAP. However, if financial statements are not provided
12 or not provided on the timelines specified in the FAP or otherwise do not comply
13 with the FAP, then the values derived from such financial statements for the
14 Corporate Liquidity Assessment shall be assigned \$0.00. In other words, the only
15 values in the Available Corporate Liquidity calculation for participants who do
16 not submit financial statements or that submit noncompliant financial statements
17 will be the excess financial assurance reflected in the ISO's Financial Assurance
18 Management system and that value will be compared against the participant's
19 Applicable Monthly Stop-Losses. Because the FAP Revisions provide that the
20 ISO will review financial statements on a rolling basis, the ISO will update the
21 appropriate values if a participant who previously failed to submit financials or
22 submitted non-compliant financials then provides the appropriate financial
23 statements at a later date. For example, if a participant has provided first quarter

1 financial statements, but does not provide second quarter financial statements
2 within 65 days of the end of the second quarter, the values derived from the
3 financial statements (that were previously taken from the first quarter financials)
4 will be set to \$0.00 until the ISO performs a review of the second quarter financial
5 statements once provided by the participant. The participant does not get the
6 benefit of the first quarter values beyond the 65 days allowed for providing the
7 second quarter financial statements. Another example would be a participant that
8 provides financial statements without the appropriate officer's certificate or
9 without values calculated in accordance with international accounting standards
10 or generally accepted accounting principles. In each such instance, the ISO would
11 use \$0.00 for values derived from the financial statements.

12

13 **Q: WHAT HAPPENS IF, BASED ON THE CORPORATE LIQUIDITY**
14 **ASSESSMENT, A PARTICIPANT IS BORDERLINE BETWEEN TWO**
15 **RISK ASSESSMENT CATEGORIES?**

16 **A:** As explained above, the FCM participants will receive a low risk, medium risk, or
17 high risk rating based on the Corporate Liquidity Assessment. Because the
18 Available Corporate Liquidity calculation done as part of that assessment includes
19 balance sheet values and excess financial assurance, if a participant is very close
20 to being assessed as a lower risk category, they can increase their corporate
21 liquidity by whatever amount required to provide them the more favorable risk
22 rating as appropriately assessed by the ISO.

23

1 **Q: PLEASE EXPLAIN THE USE OF GUARANTIES FOR THE**
2 **CORPORATE LIQUIDITY ASSESSMENT.**

3 A: As I explained above, many participants may not have adequate corporate
4 liquidity, but an Affiliate entity (including parent entities) may have adequate
5 liquidity. Therefore, the FAP Revisions provide that for purposes of the Corporate
6 Liquidity Assessment, participants may provide an Affiliate guaranty
7 guaranteeing the payment of all Capacity Performance Payments owed by such
8 participant. If a compliant guaranty is provided, then the guarantor must provide
9 its financial statements to the ISO (per the terms of the guaranty and the FAP
10 Revisions) and the Corporate Liquidity Assessment components derived from
11 financial statements will be based on the guarantor's financial statements (rather
12 than participant financial statements). Excess financial assurance and stop-losses
13 will still be determined at the participant level.

14
15 The FAP Revisions also provide that a participant may provide a guaranty from
16 multiple affiliates in which case the guarantors' financial statements will be
17 considered on an aggregate collective basis for purposes of the Available
18 Corporate Liquidity calculation, taking into account other guaranties provided by
19 the guarantors (*i.e.*, the ISO would ensure the review is done on a consolidated
20 basis). In other words, the ISO will ensure that the guarantor's liquidity isn't
21 "spread too thin" when compared to the aggregate amount of potential non-
22 performance penalties for the entities it is guaranteeing.

23

1 **Q: CAN AN ENTITY GUARANTY MORE THAN ONE MARKET**
2 **PARTICIPANT?**

3 A: Yes, if an entity has multiple market participant Affiliates that it would like to
4 provide a guaranty for, guaranteeing the payment of each participant’s potential
5 non-performance penalties, then for purposes of the Corporate Liquidity
6 Assessment, the participants will be assessed as a whole and assigned one
7 Corporate Liquidity Assessment result (*i.e.*, low risk, medium risk, or high risk).
8 The Corporate Liquidity Assessment thresholds remain the same as a single entity
9 assessment (*e.g.*, low risk is liquidity greater than or equal to the sum of the three
10 largest monthly stop-losses) and the Applicable Monthly Stop-losses of each
11 participant are aggregated for each month prior to conducting the assessment. By
12 assessing entities collectively and taking into account whether a guarantor is
13 guaranteeing multiple participants, the Corporate Liquidity Assessment is able to
14 evaluate the total liquidity of the guaranteeing entities against the collective
15 potential non-performance penalties during the six month calculation window and
16 ensures that the guaranties are not considered in isolation, but rather account for
17 the full amount of non-performance penalties of each participant. Similarly, if a
18 participant is also acting as a guarantor for an Affiliate, then for purposes of the
19 Corporate Liquidity Assessment, the participants will be assessed as a whole and
20 assigned one Corporate Liquidity Assessment result (*i.e.*, low risk, medium risk,
21 or high risk).

22
23 **Q: WHAT ARE THE REQUIREMENTS FOR A GUARANTY?**

1 A: The guaranty must be from an Affiliate (which is a preexisting defined term in the
2 Tariff that includes parent entities and other corporate affiliates);³⁶ must be
3 unconditional and irrevocable; guaranty the payment of all Capacity Performance
4 Payments (*i.e.*, non-performance penalties); and be in the form posted on the
5 ISO’s website with only minor, non-material changes (as determined by the ISO
6 in its sole discretion). Additionally, if the guaranty is from multiple Affiliates,
7 then their liability must be joint and several. The form guaranty contains standard
8 representations and warranties as well as a requirement for the guarantor to
9 provide financial information to the ISO for purposes of the Corporate Liquidity
10 Assessment.

11

12 **Q: CAN THE FORM OF GUARANTY CHANGE?**

13 A: Yes, the FAP Revisions provide that the ISO will post a generally acceptable
14 “clean” form of guaranty on its website. However, the FAP Revisions also
15 provide that the ISO, in its sole discretion, may update the form of guaranty from
16 time to time. This allows the ISO to update the form guaranty, if it identifies
17 improvements or required adjustments (*e.g.*, based on case law decisions
18 regarding guaranties or other updated guidance regarding guaranty interpretation).

19

³⁶ Affiliate is defined as any person or entity that controls, is controlled by, or is under common control by another person or entity. For purposes of this definition, "control" means the possession, directly or indirectly, of the authority to direct the management or policies of an entity. A voting interest of ten percent or more shall create a rebuttable presumption of control. *See* Tariff Section I.2.2.

1 Additionally, as I note above, the ISO can review and accept non-material
2 changes to the form guaranty. This is important because depending on the
3 guarantor, certain changes may be required. For example, if a guarantor is a
4 foreign entity, specific provisions applicable to foreign guarantors will be
5 required and will need to be tailored to the guarantor's country of formation. The
6 ISO has included in its form indications of which provisions will need to be
7 amended in the case of a foreign guarantor.

8

9 **Q: CAN A GUARANTY PROVIDED FOR PURPOSES OF THE**
10 **CORPORATE LIQUIDITY ASSESSMENT BE TERMINATED?**

11 A: Yes, the FAP Revisions provide that the ISO may, at any time, in its sole
12 discretion choose to reject or terminate a guaranty because such guaranty presents
13 unreasonable risk to the ISO or the New England Markets. This flexibility is
14 important because the ISO may learn information about a guarantor (*e.g.*, liquidity
15 issues or that the guarantor has incurred a significant liability) that affects its
16 ability to meet its contractual obligations to guaranty the payment of the
17 participant's non-performance penalties. Because the guaranty is to ensure that
18 participants with inadequate liquidity will be able to satisfy their non-performance
19 penalties, it is critical that the guarantor maintain the ability to pay such penalties
20 should they arise.

21

22 **Q: WHAT ARE THE CONSEQUENCES OF A CORPORATE LIQUIDITY**
23 **ASSESSMENT GUARANTY BEING TERMINATED?**

1 A: If the ISO determines, in its sole discretion, that the guaranty has become too
2 risky, two consequences may be triggered: one with respect to the market
3 participant and one with respect to the guarantor.

4

5 First, under the FAP Revisions, the ISO may provide notice to the applicable
6 market participant that it is choosing to reject or terminate the guaranty. Upon
7 providing such notice, the guaranty will not be considered for purposes of such
8 participant's Corporate Liquidity Assessment beginning at 8:30am EST on the
9 next Business Day, provided that the ISO may, in its sole discretion, extend this
10 period by up to twenty (20) Business Days. Practically, when the ISO notifies a
11 participant that it will no longer consider its Affiliate guaranty, it will likely result
12 in increased financial assurance requirements for the participant. This is because
13 the participant was likely relying on the guaranty (and the guarantor's financial
14 statements) to be assessed as a lower risk category (*e.g.*, medium risk or low risk)
15 than it would have otherwise been assessed if the Corporate Liquidity Assessment
16 was performed based on the market participant's financial statements alone. The
17 ISO recognizes that increased collateral requirements may cause the participant to
18 go into financial assurance default if they are unable to quickly provide an
19 increased letter of credit or increase the balance of its Blackrock account.

20 Therefore, the FAP Revisions contain some flexibility to allow the ISO to extend
21 the period (up to 20 Business Days) for the participant to post its increased
22 financial assurance requirements to avoid an unnecessary default. However, in
23 severe cases of financial distress (*e.g.*, when both the guarantor and market

1 participant are under financial duress), the ISO may choose not to extend the
2 period of time for posting the incremental financial assurance amount because a
3 default and resulting suspension may help limit the amount of additional financial
4 obligations a participant can incur throughout the various markets. The ISO will
5 evaluate these instances on a case by case basis and evaluate the risk to the market
6 if a participant is afforded an extended cure period.

7
8 The second consequence of the ISO determining that a guaranty presents too
9 much risk, is the contractual implications between the ISO and the guarantor. The
10 FAP Revisions are clear that if the ISO notifies the market participant that it is
11 rejecting or terminating its Affiliate guaranty, such notice does not constitute a
12 termination notice under the guaranty itself. There are a few reasons for this. The
13 first is that it is prudent to leave the guaranty in place until the participant has
14 provided any incremental collateral resulting from its revised Corporate Liquidity
15 Assessment rating (without giving effect to the guarantor's financial statements).
16 In other words, even a guaranty from a weak guarantor is better than terminating
17 such guaranty before adequate financial assurance is in place. The second reason
18 that notice under the FAP does not constitute termination notice under the
19 guaranty is that the guaranty is a contractual relationship between the ISO and the
20 guarantor and is therefore governed by the termination provisions in the guaranty
21 rather than the FAP. The form guaranty provides that the ISO may terminate the
22 guaranty in its sole discretion (and does not contain any qualifiers on such

1 discretion), because the qualifier (*i.e.*, “unreasonable risk to the ISO or the New
2 England Markets”) is contained in the FAP.

3

4 It is also important to note that in addition to a contractual requirement for the
5 guarantor to provide financial statements to the ISO (in order for the ISO to
6 perform the Corporate Liquidity Assessment), the form of guaranty requires that a
7 guarantor notify the ISO of any material adverse change in its financial condition
8 or the increase in, or the addition of any new, material liability which may affect
9 the guarantor’s ability to perform under the guaranty. This contractual obligation
10 may inform the ISO’s decision to terminate a guaranty.

11

12 **Q: OTHER THAN THE ISO EXERCISING ITS DISCRETION ARE THERE**
13 **OTHER WAYS THAT THE GUARANTY MAY TERMINATE?**

14 A: Yes, the form guaranty has three termination triggers: (1) the ISO exercising its
15 unilateral decision to terminate the guaranty (as discussed above), (2) the ISO
16 providing consent (which consent shall not be unreasonably withheld), to a
17 written request from the guarantor to terminate, provided that the ISO will not
18 consider such request until the participant has provided adequate financial
19 assurance without taking into effect the guaranty, and (3) the participant’s
20 Financial Assurance Requirement (as defined in the FAP) is no longer in effect
21 and all amounts owed by the participant have been indefeasibly paid in full.

22

23 **Q: CAN THE ISO REJECT A GUARANTY FROM THE OUTSET?**

1 A: Yes, as I explained above, the FAP Revisions provide that the ISO may in its sole
2 discretion provide notice to a Designated FCM Participant that it is choosing to
3 reject or terminate its Affiliate guaranty because such guaranty presents
4 unreasonable risk to the ISO or the New England Markets. When the ISO receives
5 a new guaranty, it will assess the guarantor's financial statements to ensure there
6 is enough liquidity and will also consider other factors (such as whether the
7 guarantor is a foreign entity and whether the laws of such country provide
8 defenses to guaranties that would weaken the strength of the guaranty) before
9 accepting such guaranty.

10

11 **Q: WHEN WILL THE ISO DRAW ON THE GUARANTY?**

12 A: The FAP Revisions provide that the ISO has the right to draw upon the guaranty
13 in the event of a default under the ISO New England Billing Policy up to any
14 amount owed for unpaid Capacity Performance Payments (*i.e.*, PFP or non-
15 performance penalties). Per the terms of the guaranty, the ISO does not need to
16 first recover (or attempt to recover) the amount from the defaulting participant.

17

18 **B. NEW COLLATERAL METHODOLOGIES**

19 **Q: WHAT EFFECT DOES THE NEW CORPORATE LIQUIDITY**
20 **ASSESSMENT HAVE ON A PARTICIPANT'S COLLATERAL**
21 **REQUIREMENTS?**

22 A: As I explained above, each FCM participant will be subject to a Corporate
23 Liquidity Assessment that will compare the entity's (or its guarantor's) corporate

1 liquidity to the sum of its three largest monthly stop-losses over a six month
2 period. Based on this assessment, a participant will be assessed as low risk,
3 medium risk, or high risk. Low risk entities will continue to be subject to the
4 existing FCM Delivery Financial Assurance calculation (subject to the
5 enhancements to the IMC variable, which I describe below). Medium risk and
6 high risk entities will have risk adder(s) added to their FCM Delivery Financial
7 Assurance calculation to account for the increased liquidity risk and are also
8 subject to a new capitalization rule (as described later in my testimony).
9
10 Essentially, the risk adder requires medium and high risk entities to post an
11 additional (or two additional) month's stop-loss (less estimated assumed
12 performance) upfront (and on an ongoing basis) as collateral instead of waiting
13 for such penalties to be incurred and collateralized per the natural operation of the
14 formula. Requiring the amount upfront recognizes that based on the participant's
15 liquidity profile, being able to post incremental financial assurance once the
16 penalty is incurred is less likely. The risk adder concept strikes a balance between
17 needing to account for the increased risk that medium and high risk entities pose
18 to the market but not requiring full collateralization up to the participant's annual
19 stop-loss upfront because such outcome would be costly for lower probability
20 scenarios.

21
22 **Q: WHAT COLLATERAL REQUIREMENTS WILL APPLY TO A MEDIUM**
23 **RISK ENTITY?**

1 A: Medium risk entities will have a risk adder added to their FCM Delivery Financial
2 Assurance calculation. Generally, the risk adder is equal to the peak monthly stop-
3 loss amount for that entity over the next six months but adjusted by the estimated
4 assumed performance of the resources in a participant's portfolio during Capacity
5 Scarcity Conditions: the difference between the Average Balancing Ratio (ABR)
6 and the Capacity Weighted Average Performance ratio (CWAP).

7
8 More specifically, if based on the Corporate Liquidity Assessment, an entity is
9 assessed as "Medium Risk", it will be required to post FCM Delivery Financial
10 Assurance according to the following formula:

$$\begin{aligned} & [DFAMW \times PE \times \max[(ABR - CWAP), 0.1] \times SF] - IMC - MCC - \text{Peak} \\ & \text{Monthly Stop-loss} \times \max[(ABR - CWAP), 0.1] \end{aligned}$$

13
14 Where the first portion of the formula: "DFAMW x PE x max[(ABR – CWAP),
15 0.1] x SF] – IMC – MCC" is the existing FCM Delivery Financial Assurance
16 formula and the second part of the formula: "Peak Monthly Stop-loss x
17 max[(ABR – CWAP), 0.1]" is the risk adder.

18
19 **Q: PLEASE DESCRIBE THE ELEMENTS OF THE RISK ADDER FOR**
20 **MEDIUM RISK ENTITIES.**

21 A: For medium risk entities, "Peak Monthly Stop-loss x max[(ABR – CWAP), 0.1]"
22 represents the risk adder that will be added (expressed as subtraction in the full
23 formula because the value will be negative) to the entities' FCM Delivery

1 Financial Assurance. Peak Monthly Stop-loss is defined as the largest monthly
2 stop-loss (after aggregating the stop-losses for each resource in the portfolio) for
3 that participant that would occur during the period from the current delivery
4 month through the following five consecutive months (including months in a
5 future Capacity Commitment Period). The stop-losses are calculated pursuant to
6 the monthly stop-loss rules set forth in Section III.13.7.3.1 of Market Rule 1.

7
8 The second part of the risk adder " $\max[(ABR - CWAP), 0.1]$ " incorporates a
9 concept that exists in the current FCM Delivery Financial Assurance methodology
10 which recognizes the diversification benefits of multi-resource portfolios (based
11 on the resources' assumed performance given historical performance during prior
12 Capacity Scarcity Conditions) effectively reducing the risk adder. I explain the
13 calculation of " $\max[(ABR - CWAP), 0.1]$ " earlier in my testimony and the same
14 calculation will apply for the risk adder. The term " $\max[(ABR - CWAP), 0.1]$ " is
15 a minimum percentage of the calculated potential exposure (PE) given
16 assumptions regarding the average system-wide Capacity Balancing Ratio and the
17 performance of a Market Participant's capacity resources. The ABR and CWAP
18 values correspond to the season during which the Peak Monthly Stop-Loss occurs.
19 Regarding single resource portfolios, the CWAP value is zero, which means the
20 risk adder is only adjusted by the ABR value which reflects its expected slice of
21 system obligation during Capacity Scarcity Conditions. Once " $\max[(ABR -$
22 $CWAP), 0.1]$ " is calculated, that value will be multiplied with the Peak Monthly
23 Stop-loss and that will be the total risk adder for a medium risk entity.

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Q: WHAT COLLATERAL REQUIREMENTS WILL APPLY TO A HIGH RISK ENTITY?

A: High risk entities will have two risk adders added to their FCM Delivery Financial Assurance calculation. Generally, the risk adders are equal to the peak monthly stop-loss and the second largest monthly stop-loss for that entity over the next six months but, in each case, are adjusted by the estimated assumed performance of the resources in a participant’s portfolio during Capacity Scarcity Conditions: the difference between the Average Balancing Ratio and the Capacity Weighted Average Performance ratio.

More specifically, if based on the Corporate Liquidity Assessment, an entity is assessed as “High Risk”, it will be required to post FCM Delivery Financial Assurance according to the following formula:

$$[DFAMW \times PE \times \max[(ABR - CWAP), 0.1] \times SF] - IMC - MCC - \text{Peak Monthly Stop-loss} \times \max[(ABR - CWAP), 0.1] - \text{Second Largest Monthly Stop-loss} \times \max[(ABR - CWAP), 0.1]$$

Where the first portion of the formula “DFAMW x PE x max[(ABR – CWAP), 0.1] x SF] – IMC – MCC” is the existing FCM Delivery Financial Assurance formula and the second part of the formula “Peak Monthly Stop-loss x max[(ABR – CWAP), 0.1] – Second Largest Monthly Stop-loss x max[(ABR – CWAP), 0.1]” are the two risk adders.

Q: PLEASE DESCRIBE THE ELEMENTS OF EACH RISK ADDER FOR HIGH RISK ENTITIES.

A: For high risk entities, “Peak Monthly Stop-loss x $\max[(ABR - CWAP), 0.1]$ – Second Largest Monthly Stop-loss x $\max[(ABR - CWAP), 0.1]$ ” represents the risk adders that will be added (expressed as subtraction in the full formula because the values will be negative) to the entities’ FCM Delivery Financial Assurance. Peak Monthly Stop-loss is the same as for medium risk entities (*i.e.*, the largest monthly stop-loss over a six month period). Second Largest Monthly Stop-loss is defined as the second largest monthly stop-loss (after aggregating the stop-losses for each resource in the portfolio) for that participant that would occur during the period from the current delivery month through the following five consecutive months (including in a future Capacity Commitment Period). The stop-losses are calculated pursuant to the monthly stop-loss rules set forth in Section III.13.7.3.1 of Market Rule 1.

Like the risk adder for medium risk entities, each risk adder for high risk entities (Peak-Monthly Stop-loss and Second Largest Monthly Stop-loss) also reflects the adjustment for estimated assumed performance based on historical performance of a portfolio during prior Capacity Scarcity Conditions by multiplying each value by “ $\max[(ABR - CWAP), 0.1]$ ”.

Q: DID ADDING THE RISK ADDERS AFFECT THE REST OF THE FCM DELIVERY FINANCIAL ASSURANCE FORMULA?

1 A: As I explained above, the risk adders are added to the underlying FCM Delivery
2 Financial Assurance formula for entities assessed as medium or high risk. Adding
3 the risk adders requires a conforming change to the FCM Delivery Financial
4 Assurance formula because previously (without the operation of the risk adders),
5 the FCM Delivery Financial Assurance was naturally limited by the annual stop-
6 loss by virtue of the DFAMW variable, which excludes resources that reached
7 their annual stop-loss. However, the risk adders for medium and high risk entities
8 don't contain the DFAMW term so without explicitly stating the that overall FCM
9 Delivery Financial Assurance formula is limited by the annual stop-loss, there is a
10 risk that through the inclusion of the risk adders, financial assurance would
11 exceed the stop-loss amount. This is because the risk adders requires using the
12 peak (or second peak) monthly stop-loss over the next six months which may
13 mean using a value that would cause FCM Delivery Financial Assurance to
14 exceed the maximum amount of remaining potential penalty payments as limited
15 by the operation of the annual and monthly stop-losses amounts. Therefore, the
16 FAP Revisions provide that for the for the 2025 - 2026 Capacity Commitment
17 Period and every Capacity Commitment Period thereafter, the FCM Delivery
18 Financial Assurance formula will be "limited by the operation of the applicable
19 stop-loss mechanisms as set forth in Market Rule 1 (including those that may
20 apply in the next Capacity Commitment Period)." This language is necessary, to
21 ensure that the ISO isn't over-collateralizing the maximum remaining potential
22 penalty payments and because if a participant has a CSO in the next Capacity
23 Commitment Period (*e.g.*, the 2026 - 2027 Capacity Commitment Period), the

1 formula needs to consider the maximum remaining potential penalty payments for
2 that period as well.

3
4 The following example illustrates how this limiting language works: the FCM
5 Delivery Financial Assurance formula (without risk adders) would calculate the
6 obligation for a single resource 100 MW CSO in May of the 2025 - 2026
7 Capacity Commitment Period to be \$589,000 (assuming no prior Capacity
8 Scarcity Conditions causing IMC or MCC values). The medium risk adder would
9 be \$744,000 (assuming the default ABR value for the shoulder season). Together,
10 the total obligation would be \$1.33 million. In May, the maximum remaining
11 potential penalty for the 2025 - 2026 Capacity Commitment Period for such
12 resource would be the monthly stop loss of \$1.24 million (assuming penalties
13 from the first 11 months of the Capacity Commitment Period are not less than
14 \$1.24 million away from reaching the annual stop-loss). The ISO should not be
15 holding more collateral than the max potential penalty payment, therefore the
16 limiting language was introduced so that in the above example, the ISO would
17 only hold \$1.24 million instead of the full \$1.33 million that the formula produces
18 without the limiting language.

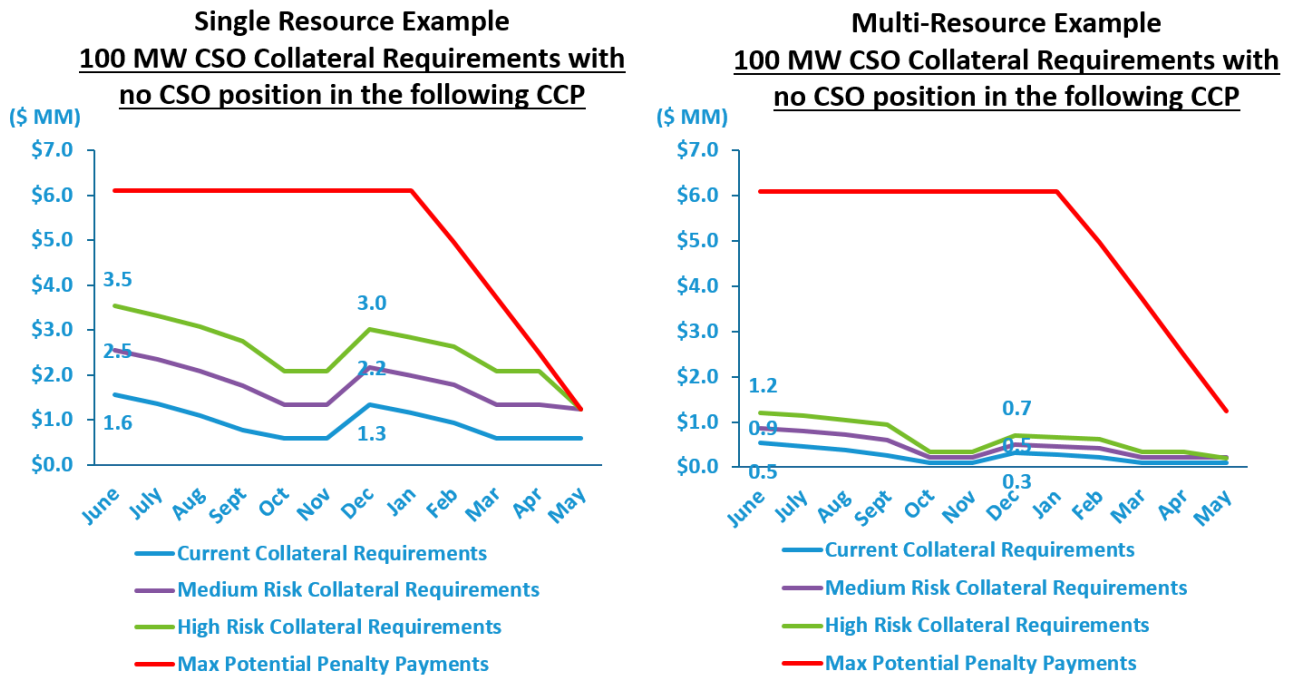
19

20 **Q: PLEASE PROVIDE AN EXAMPLE OF THE IMPACT OF THE REVISED**
21 **FCM DELIVERY FINANCIAL ASSURANCE CALCULATION.**

22 A: As the below charts illustrate, the FAP Revisions will result in increased collateral
23 requirements for entities that are assessed as medium and high risk. The below

charts use example 100MW single resource CSO and multi-resource CSOs for the 2025 - 2026 Capacity Commitment Period to show the collateral requirements as compared to the annual stop-loss amount and the current FCM Delivery Financial Assurance requirements.³⁷

Incremental PFP Collateral Requirements Examples



Each example assumes that the Market Participant does not have a CSO position in the following Capacity Commitment Period. This is indicated by the “Max Potential Penalty Payments” (red line) dropping significantly as the Capacity Commitment Period comes to an end. Although the calculation of the annual stop-loss amount does not adjust (per the methodology in Market Rule 1), the red line

³⁷ The values in the charts are based on weighted average CWAP (Capacity Weighted Average Performance) of all multi-resource market participants that have CSOs for the 2025 - 2026 Capacity Commitment Period (prior to the second and third annual reconfiguration auctions).

1 indicates that it would be impossible for a participant to incur their full annual
2 stop-loss towards the end of a Capacity Commitment Period as there are not
3 enough months remaining to incur the maximum penalty amount.

4

5 In summary, the risk adders for medium and high risk entities are to account for
6 the increased risk that such entities pose to the market by providing an additional
7 amount of collateral upfront and on an ongoing basis that roughly approximates
8 the participant's peak obligations (depending on whether a participant is assessed
9 as medium or high) over the next six months accounting for the diversification
10 benefits of portfolios.

11

12 **C. CONFORMING CHANGES TO CAPITALIZATION PROVISIONS IN**
13 **THE FAP.**

14 **Q: PLEASE EXPLAIN HOW THE CAPITALIZATION PROVISIONS IN**
15 **THE FAP INTERACT WITH THE PROPOSED FCM DELIVERY**
16 **FINANCIAL ASSURANCE CHANGES.**

17 A: Under the current FAP, all participants are required to meet the capitalization
18 requirements contained in Section II.A.4. Generally, that section requires
19 participants to meet certain capitalization thresholds and if they are unable to do
20 so, the participant is required to provide an additional amount of financial
21 assurance equal to 25% of the participant's total financial assurance requirements

1 (excluding FTR Financial Assurance Requirements, which are subject to a
2 separate capitalization adder). As explained in Docket ER15-593-000,³⁸ requiring
3 an additional amount of financial assurance (*i.e.*, 25% percent of a participant's
4 total financial assurance requirements) from thinly capitalized entities, better
5 protects the market from the risk of default from entities with inadequate
6 capitalization.

7
8 Similarly, the FAP Revisions are proposed to protect the market from the risk of
9 non-performance penalty defaults from entities with inadequate corporate
10 liquidity. Although evaluating a company's capitalization (*i.e.*, its worth or total
11 assets) is different from evaluating a company's liquidity (*i.e.*, its ability to pay
12 short-term liabilities), the goal of the risk adders is similar to the goal of the 25%
13 capitalization adder: to have financial assurance on hand to apply towards defaults
14 if the riskier entity defaults on its payment obligations. As a result, the FAP
15 Revisions provide that for entities that are assessed as medium or high risk per the
16 Corporate Liquidity Assessment, that also do not meet the capitalization
17 requirements, the 25% capitalization adder will not apply to that participant's
18 FCM Delivery Financial Assurance. In other words, if a participant is subject to
19 the 25% additional financial assurance under the capitalization provisions, FCM
20 Delivery Financial Assurance requirements will be subtracted from the

³⁸ See ISO New England, Revisions to ISO New England Transmission, Markets and Services Tariff Related to Minimum Capitalization Requirements in the Financial Assurance Policy, at p. 6 (Dec. 5, 2014) (accepted via Delegated Letter Order issued Jan. 29, 2015).

1 participant's total financial assurance amount before applying the 25%. This
2 approach is reasonable, as it means that an entity isn't required to post extra
3 collateral for the same obligations for both failure to meet the capitalization
4 requirements and for failure to maintain adequate corporate liquidity.

5

6 **D. INTRA-MONTH COLLATERAL VARIABLE CHANGE**

7 **Q: PLEASE EXPLAIN THE EXISTING INTRA-MONTH COLLATERAL**
8 **VARIABLE THAT IS INCLUDED IN THE FCM DELIVERY FINANCIAL**
9 **ASSURANCE FORMULA.**

10 A: As I explained in my testimony in Docket ER24-661-000, the ISO added the IMC
11 (or "intra-month collateral") variable to the FCM Delivery Financial Assurance
12 calculation to enhance clearing risk management (*i.e.*, the risk that incurred
13 penalties won't be timely discharged) that was previously addressed solely by the
14 MCC variable in the formula. As the MCC (or "monthly capacity charge")
15 variable collateralized non-performance penalties that had been incurred in a prior
16 month, but not yet billed, the IMC variable collateralizes incurred non-
17 performance penalties within the month they are incurred (*i.e.*, within the month
18 of the Capacity Scarcity Condition) by adding to, in the case of a performance
19 penalty, or subtracting from, in the case of a performance credit, a participant's
20 FCM Delivery Financial Assurance. The addition of the IMC variable ensured
21 that if a Capacity Scarcity Condition, resulting in penalties, occurs early in a
22 month, a participant's collateral requirements are updated that month as opposed
23 to the potential time-lag between the date the non-performance penalties are

1 calculated and the resulting collateral increases on the first day of the following
2 month.

3

4 **Q: PLEASE EXPLAIN WHY THE IMC VARIABLE SHOULD BE FURTHER**
5 **ENHANCED.**

6 A: Currently, the IMC variable calculates the full amount of penalty incurred within
7 a current month (“Month A”), but regardless of potential additional Capacity
8 Scarcity Conditions, there are situations where a portion of the maximum amount
9 of the monthly non-performance penalty required as collateral will be returned the
10 following month (“Month B”) based on the full calculation of the participant’s
11 FCM Delivery Financial Assurance. This is because once the new month starts
12 (Month B), the full amount of the penalty that was previously captured by the
13 IMC variable will roll into the MCC variable (which collateralizes penalties
14 incurred in the prior month) and the IMC will return to \$0 (until a new Capacity
15 Scarcity Condition occurs). For example, if Month B is a month with a lower
16 scaling factor and therefore would require less financial assurance, the ISO could
17 return such excess amount to the participant (if requested) as soon as the
18 calculation updates. Therefore, it is unnecessary to keep such excess amount until
19 it is returned at the start of a new month. The ISO remains collateralized for the
20 full amount of incurred penalties and avoids unnecessary collateral swings. The
21 following chart provides an example that illustrates this and the month-to-month
22 nature of the IMC input and how, as prospectively modified, the maximum IMC
23 calculation would more accurately track the interaction between the IMC (current

1 monthly exposure) and the other portions of the FCM Delivery Financial
 2 Assurance calculation.

Maximum IMC Calculation Example

Month	DFAMW (MW)	Remaining Annual Stop-Loss (\$ MM)	Monthly Stop-Loss (\$ MM)	Max PFP Penalty (\$ MM) A	PE (\$/MW)	ABR	CWAP	SF	Current Month Collateralization (\$ MM) B	Next Month Collateralization (\$ MM) C	Max IMC (\$ MM) A - (B - C)
Jun	100	\$6.1	\$1.2	\$1.2	\$9,810	0.9	0	2.000	\$1.8	\$1.5	\$0.9
Jul	100	\$4.9	\$1.2	\$1.2	\$9,810	0.9	0	1.732	\$1.5	\$1.2	\$0.9
Aug	100	\$3.7	\$1.2	\$1.2	\$9,810	0.9	0	1.414	\$1.2		

3
 Maximum IMC = Maximum PFP Penalty – Max[(Current Month Collateralization – Next Month Collateralization), 0]
 Maximum PFP Penalty = MIN[Current Month Stop-Loss, Remaining Annual Stop-Loss]
 Current Month Collateralization = DFAMW * PE * Max[(ABR-CWAP), 0.1] * SF
 - All values are taken from the current delivery month
 Next Month Collateralization = DFAMW * PE * Max[(ABR-CWAP), 0.1] * SF
 4 - All values are taken from the delivery month immediately following the current delivery month

5 6 E. CONFORMING AND CLEAN-UP CHANGES

7 **Q: ARE THERE OTHER CHANGES INCLUDED IN THE FAP REVISIONS?**
 8 A: Yes, in addition to the changes I have described above, the FAP Revisions include
 9 updates to the FAP Table of Contents to reflect the new sections that were added
 10 for the FCM Delivery Financial Assurance Calculation, the Corporate Liquidity
 11 Assessment Methodology, and FCM Affiliate Guaranties.

12

1 Q: DOES THIS CONCLUDE YOUR TESTIMONY?

2 A: Yes.

3

4 I declare under penalty of perjury that the foregoing is true and correct.

5 Executed on September 18, 2024.

6

7

8 Christopher Nolan, Director, Market and Credit Risk

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